STATE RESCALING, EXPERIMENTAL REFORMS
AND INSTITUTIONAL CONTINUITY: THE SHIFTING SPATIAL LOGICS
OF SOCIOECONOMIC REGULATION IN POST-1949 CHINA

by

KEAN FAN LIM

B.Soc.Sci (1st Class Honours), National University of Singapore, 2003
M. Soc. Sci, National University of Singapore, 2005
PGDE (Distinction), Nanyang Technological University, 2006

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE DEGREE OF

DOCTOR OF PHILOSOPHY

in

THE FACULTY OF GRADUATE AND POSTDOCTORAL STUDIES

(Geography)

THE UNIVERSITY OF BRITISH COLUMBIA
(Vancouver)

October 2014

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Abstract

Drawing on the literature on state rescaling, this dissertation investigates how post-1978 layers of policy shifts interact with regulatory logics of Mao Zedong-era policies, and in turn how this reproduces what the Chinese state now deems to be ‘necessary’ forms of uneven development. It proceeds on the premise that the shifting regulatory geographies of the Chinese state constitute a prism through which to evaluate socioeconomic change in China. The analysis is presented in two parts. First, it questions the logics and implications of designating specific territories – Hengqin and Qianhai in the Pearl River Delta and Liangjiang in Chongqing – into “nationally strategic new areas” after the 2008 global financial crisis. These logics were assessed through triangulating three primary empirical sources: policy documents, published comments by state actors and interviews with planners and scholars in China. The contemporary cases are presented in two segments, each comprising two chapters (Chapters 6 to 9). The first chapter of each segment explores how the geo-historical context and key actors enabled the national designation, the second examines the implications of key policy experimentation in the areas. Working from these empirical findings, the dissertation revisited historical sources (memoirs from different state actors of the Mao era, statistics extending back to 1949, academic articles in China, etc.) and developed a geographical-historical narrative that evaluates how the spatial logics of socioeconomic regulation have evolved during and after the Mao era (Chapters 4 and 5). The outcome is a two-pronged, mutually-reinforcing attempt to theorize the past from the lens of the present, and to conceptualize the present through ascertaining the impacts of policies inherited from past regimes. In so doing, the dissertation problematizes simple ‘transition’ models that portray a unidirectional, epochal change in the post-1978 Chinese political economy, a change characterized by decentralized governance and intensified economic-geographical inequality. It emphasizes, instead, a more deeply sedimented pattern of development that is marked simultaneously by significant (and enduring) forms of uneven socioeconomic development and experimental (and capricious) attempts to transcend these forms.
Preface

The author, Kean Fan Lim, acknowledges this dissertation as an original intellectual product. The data collection process was evaluated and certified by the University of British Columbia Research Ethics Board (Certification number: H11-03072).

Parts of the dissertation research have contributed to the following publications:


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Acknowledgements

The journey of (self-)discovery over the five years that culminated in this dissertation would not have been possible without the guidance and support of my two supervisors, Professors Trevor Barnes and Jamie Peck. Looking back to the moments before I left Singapore for Vancouver in the spring of 2009, I remember the original research proposal for my graduate school application talked about comparing Macau and Singapore’s gambling industries. It was during the summer of 2009, as I was telling my wife Stephanie about several books by David Harvey that Trevor lent me, that I began to get interested in China’s role in the global system of capitalism. Even so, I did not consider taking on the challenging task of examining the fast-changing economic geographies in China until it was time to draft my dissertation research proposal in the spring of 2011. At the time, an emerging pattern of economic-geographical transformations in China piqued my interest: the designation of ‘nationally strategic new areas’ as frontiers of policy experimentations. Both Trevor and Jamie were particularly encouraging when I mentioned I would like to shift my research focus to examine place-specific experimentation – their subsequent patience and support enabled me to develop a feasible proposal that ultimately led to a highly-rewarding research project. Thank you, Trevor and Jamie, for pushing me all the way. You have been excellent mentors.

Apart from the supervisory support, the friends I made at the Department of Geography in UBC have made me feel truly at home in Vancouver. I enjoyed the regular beer sessions with Noah Quastel, Elliot Siemiatycki, Pablo Mendez and Sébastien Rioux. The discussions at these sessions were always stimulating, and it was an honor to engage with these talented guys. Thank you for being so welcoming from the moment I joined the Department and for helping me so much along the way. I look forward to getting together again. Similarly I always looked forward to the monthly Economic Geography reading group meetings, during which we would discuss cutting edge works and then extend the conversation at the pub. I will miss these meetings. Jim Glassman has been a very supportive faculty and dissertation committee member; his door was always open for me, his smile always reassuring. In the Graduate Program, Suzanne Lawrence and Marwan Hassan (now Head of Department) have given me guidance and support. Over at the National University of Singapore, I am thankful to Professor Henry Yeung, supervisor of my Masters research project, for always believing in me.

Finally, I am eternally grateful to my wife, Stephanie Lim, for her unrelenting support over this period. It is not easy to put everything behind in Singapore and embark on a new journey in a faraway land, but she has done it in the belief that I will do well. She has, in all sense of the word, always been there for me – cooking meals with love, going on long walks, and, most crucially, telling me not to give up when the going got tough. Her dedication in creating a welcoming home was and remains the primary source of comfort for me. I can only hope to repay all her kindness and love in the future.
For my dearest wife,
Stephanie Lim
Chapter 1
Introduction: A story of (experimental) change

1.1 Introduction

This dissertation tells a story of change in the Chinese political economy. At one level, this tale overlaps a widely accepted narrative of incessant and seemingly inevitable economic growth. Following the Communist Party of China’s (CPC) decision to launch economic ‘reforms and liberalization’ (gaige kaifang) in 1978, the country experienced significant enhancements in domestic standards of living. Over the last three decades, a diverse range of technologies and expertise (e.g. automobiles, medical, IT, solar tech, etc.) has been introduced and adapted by the Chinese populace, leading to further improvements in quality of life. The political commitment to expand productive capacities and lubricate market exchange has seen immense infrastructural upgrades in air, rail and road transport. These developments were reflected in and reinforced in turn by substantial income growth. Per capita GDP in the early 1980s was less than US$300; it increased 20-fold to US$6000 in 2012\(^1\). In terms of macroeconomic performance, China became the second largest economy in the world in 2010 (after the United States). If there is any consensus amongst politico-economic scholarship on China’s developmental evolution, it is that the rate of socioeconomic transformation in post-1978 China was an unprecedented phenomenon of progress. And the story presented in this dissertation does not aim to deviate far from this consensus: it, too, will be about a Chinese political economy on the up-and-up.

As the subsequent chapters will show, however, there is an important nuance to this reconstructed narrative. Rather than present China’s economic growth trajectory as a linear historical process that is an exclusive outcome of market-oriented reforms\(^2\) instituted in and after 1978, the dissertation discusses specifically how the post-Mao Chinese state works at various levels to achieve development through the reconfiguration of regulatory relations between the central and local governments. Generated by and expressed through geographically-targeted policy experimentation, the reconfiguration process illustrates the
logics of policies instituted during the Mao-era (path dependency) but also develops fresh regulatory capacities (path-generation). The shifting spatial forms of socioeconomic regulation thereby simultaneously enable and encumber this growth ‘miracle’.

Beginning with critical analyses of geographically-targeted socioeconomic reforms currently implemented by the Xi Jinping regime (2013-present), the dissertation describes and explains the rationale of these reforms in the Pearl River Delta (PRD) and Chongqing. As is now well-documented, the PRD was the frontier of China’s ‘reform and liberalization’ in the early 1980s, and it remains the leading city-region in export orientation and economic output today. Yet its developmental approach came under pressure during and after the 2008 global financial crisis, which led to a new series of experimental reforms to generate new competitive advantages for this extended metropolitan region. Chongqing, on the other hand, became a reform test bed because it received the short end of Deng Xiaoping’s developmental stick. Home to 30 million residents, the majority classified as ‘agricultural’, and lagging far behind coastal provinces in income and output since 1978, the sprawling city-region was chosen in 2010 as a region to experiment with policies to overturn the (still) widening uneven development across the country.

The goal of these analyses, to be sure, is not to focus on experimentation for its own sake. Rather, the emergence of a new round of experimental reforms is taken to be symptomatic of strong underlying problems with national-level socioeconomic regulation. During the buildup to China’s 12th Five-Year Plan (2011-2015), the Chinese central government issued an unprecedented acknowledgement that its developmental approach is undergirded by ten structural strains (laid out below in Table 1.1). While these challenges were described as outcomes of the post-Mao growth ‘model’, they arguably also enabled this model. The constraints on resource environments, for instance, may be a negative outcome, but it was through the extensive extraction of natural resources and low-cost dumping of waste into the biosphere that generated GDP growth. Similarly, the growth in social contradictions is facilitated by the rollback in rural welfare provision and municipal governments’ corresponding
denial of (already-minimum) social benefits to rural residents who migrate into and support urban economies. This rollback-cum-denial saved the state and rural collectives massive financial resources, resources that were then ploughed into capital-friendly supply-side measures (Oi, 1999; Whiting, 2001; Wu and He, 2009). The costs of this rollback were borne by rural households and by the ‘floating population’ of migrant workers, albeit in the context of rising incomes. For this reason, the 10 socioeconomic challenges listed in Table 1.1 exemplify the fragile, growth-based social contract on which the Chinese growth ‘model’ rests.

Table 1.1 China’s 10 socioeconomic challenges, identified in the proposal of the 12th 5-Year Plan

| 1. Increasing constraints of resource environments |
| 2. Relationship between investment and consumption is unbalanced |
| 3. Income distribution gap widened |
| 4. Scientific and technical innovation capacity remains weak |
| 5. Asset structure is unsatisfactory |
| 6. Thin and weak agricultural foundation |
| 7. Lack of coordination in urban-rural development |
| 8. Coexistence of contradictory economic structure and employment pressures |
| 9. Apparent increase in social contradictions |
| 10. Persistent structural and systemic obstacles to scientific development |

Source: Suggestions on the 12th 5-Year Plan by the Communist Party of China (p. 3, Mandarin document; NDRC, 2010). Author’s compilation and translation from Mandarin.

Just as these challenges were acknowledged officially, it became apparent that the new round of experimental reforms mentioned earlier were beginning to take distinct geographical forms. Specifically, the central government began to designate targeted zones within selected cities as “nationally strategic new areas” (guojia zhanlüe xinqu). New regulatory authorities in these zones were then delegated the power to ‘move first, experiment first’ – known officially as xianxing xianshi quan – with exploratory reforms deemed to be of national significance. In itself, the demarcation of urban frontiers of reform is not a novel process; the key observable difference is the considerable expansion of its scale and scope of implementation since 2006 (see Figure 1.1 and Table 1.2). Following the economic success of the first four Special Economic Zones (SEZs) in the provinces of Guangdong and Fujian, the world-renowned Pudong New Area in Shanghai was approved for development in 1990, and has since been
transformed into a city regional ‘motor’ of China’s economic growth. What is interesting is this strategy to launch “nationally strategic” institutional reforms was not extended elsewhere in China for 14 years until the Binhai industrial region adjacent to the northeastern city of Tianjin was designated China’s second ‘nationally strategic new area’ in 2006.

Figure 1.1 New frontiers of reforms: China’s “nationally strategic new areas”
Source: Author’s illustration.
<table>
<thead>
<tr>
<th>China’s nationally-strategic ‘new areas’</th>
<th>Concise overview</th>
</tr>
</thead>
</table>
| Shanghai Pudong                         | The oldest of the new areas, initiated for development in 1990; probably the most widely-known worldwide.  
• Now the national base of many TNCs and big domestic firms; a major financial centre; as well as a major global seaport.  
• New Shanghai Free Trade Zone within Pudong designated in August 2013; plans underway to extend free trade to the entire Pudong New Area  
• It is arguably the success and continued transformation of this new area that led China’s central government to formulate similar spatial strategies in other cities. |
| Tianjin Binhai                         | Relatively established; was already a designated industrial development zone for several years when it was ‘upgraded’ to zone of ‘national strategic significance’ in 2006.  
• Since the ‘upgrade’, perhaps the most high-profile development has been the establishment of Airbus’s first non-EU assembly facility.  
• Tianjin has also become a zone of financial innovations. GDP growth per annum has regularly hit or exceeded 20% since 2007. The development of this area is, surprisingly, not covered in much of the social science literature to date. |
| Chongqing Liangjiang                    | Officially unveiled as ‘new area’ in June 2010.  
• Planning commenced several years before, during to 2006-2010 developmental phase.  
• Like Binhai, the area around Chongqing has experienced industrialization in the past decade. It is the first and only inland nationally-strategic new area.  
• The primary developmental aim is to redirect more capital flows to the western region, as part of China’s ‘Great Western Opening Up’ strategy. Current plans are to develop high value-added manufacturing capacities and deepening firms’ production chains in the region, as well as experiment with ambitious reforms to enhance social welfare.  
• The inclusion of social reforms alongside industrialization strategies have highlighted the tensions associated with socialistic development in contemporary China |
| Zhejiang Zhoushan Archipelago           | Approved for development in July 2011; located off the coast of Ningbo, in Zhejiang province.  
• Designated to boost the development of China’s ‘oceanic economy’ and ‘land-ocean integration’ (*luhai tongchou*), it is an intriguing site to examine the commodification of aquatic nature |
| Gansu Lanzhou                          | Approved for development in August 2012; located in the arid and mountainous northwestern interior  
• Integral to the ‘Great Western Opening Up’ strategy: designated to absorb manufacturing industries relocating from coastal provinces |
| Guangzhou Nansha                       | Approved for development in September 2012; located at the centre of the Pearl River Delta, just south of downtown Guangzhou, in between two other specially-designated zones, Hengqin (in Zhuhai) and Qianhai (in Shenzhen)  
• An integral part of the Guangdong-Hong Kong-Macau economic development agreement to enhance the regional integration of the Pearl River Delta (PRD) metropolitan region (*yuegangao yitihua*)  
• Aids in the economic restructuring of the PRD as lower-end manufacturing activities relocate due to cost pressures  
• Expected to experiment in policies regarding China’s financial reforms (*jingai*) and integration of labor markets between Guangdong province and the Hong Kong and Macau SARs |

Source: Xinhua (11 October 2012). Author’s compilation.
From 2009 to 2012, four more ‘new areas’ were demarcated. Two ‘new areas’ are in the western interior, namely Liangjiang New Area in the city of Chongqing and Lanzhou New Area, which overlaps the city of the same name in Gansu province. The other two are located along the coast, namely Zhoushan Archipelago New Area, based offshore in Zhejiang province, and Nansha New Area, strategically positioned between two specialized new zones (Hengqin, in Zhuhai, and Qianhai, in Shenzhen) in the Pearl River Delta. It appears that several more of these ‘nationally strategic new areas’ will be identified across the country in the coming years (Xinhua, 11 October 2012). The acceleration of this seemingly patterned uneven development raises three interrelated questions that drive the research for this dissertation:

• Why and how is the CPC driving state rescaling?
• What forms of path-dependency in the post-Mao era are reflected in and through the experimental reforms?
• What kinds of new regulatory capacities are the CPC seeking to attain in the post-Mao era through the experimental reforms? Can these new capacities be extended to the national scale?

It would be helpful at this point to be clear that the overarching aim of this dissertation is not to challenge the many persuasive accounts of China’s political-economic transformations over the past 30 years. Through addressing these three research questions, the dissertation hopes to complement and build on extant scholarship on the Chinese political economy by illustrating how spatial configurations strongly influence economic growth and its corollary, state stability. As will be elaborated shortly, actually-existing socio-spatial formations, which include its built environment, administrative boundaries and industrial compositions, actively affect decision-making at different levels of the government. The goal is to study one particular aspect of the decision-making process – the decision to institute experimental geographies of socioeconomic regulation – and connect it to the broader political objectives of economic growth and state stability. In so doing, the dissertation explores how the production and integration of Chinese state space is co-constituted by experimental and inherited institutions to enhance capital
accumulation. It is from this angle that this dissertation makes its conceptual contribution to existing research on China’s socioeconomic ‘transition’ in the post-Mao era.

This introductory chapter will comprise three parts. The next section will explain how the emergent geographies of Chinese state rescaling constitute a prism through which to evaluate socioeconomic change in China. It lays out 1) the three conceptual tools employed to support the analysis, namely state rescaling, policy experimentation and path dependency; and 2) the overarching research design, namely to examine the logics of rescaling specific locations into “nationally strategic new areas”, then to situate the emergence of these logics within broader institutional demands launched during and after the Mao era (e.g. land nationalization, enforced demographic control through the hukou institution, etc.), before re-evaluating the contemporary logics of state rescaling and policy experimentation. Section 1.3 provides an overview of the research design and a concise summary of the individual chapters. It highlights specifically how this dissertation works as an attempt to theorize the past from the lens of the present, and to conceptualize the present through ascertaining how the CPC responds, in geographically-variegated ways, to policies inherited from past regimes. The contributions of the dissertation will be briefly presented in the closing section.

1.2 State rescaling, policy experimentation and the shifting logics of socioeconomic regulation

Three main concepts inform the analysis of this dissertation, namely state rescaling, policy experimentation and path-dependency. Specifically, the production of “nationally strategic new areas” is theorized as integral to and an impact of the multi-dimensional process of state rescaling. State rescaling is defined as the reconfiguration of regulatory relations between the national, subnational and supranational governments, such that what represents the ‘national interest’ is no longer expressed and realized at one scale (i.e. nationwide). Following Peck (2002) and Brenner (2004), this reconfiguration process is viewed as a simultaneous medium and an outcome of political strategies launched at/from different scales. For this reason, the
discussion does not construe state rescaling as a simple transference of regulatory capacities from a national government to governments or non-governmental entities located at other scales. The notion of ‘transfer’ implies a one-directional movement, whereas in reality state rescaling are effected by strategies that re-define how regulatory power is shared between governments. One of these strategies is the institution of experimental policies in “nationally strategic new areas” across the country.

Before putting the state rescaling concept ‘to work’, a succinct overview of its empirical origins is necessary. The concept was originally developed to understand the transformation of Fordist-Keynesianism, namely the structurally-coherent national economies in post-WWII western Europe. This came about as state spatial strategies are observed to have led to the re-articulation of (nationally-oriented) state spatiality within the global system of capitalism (Peck, 2002, 2003; Brenner, 2004, 2009). Brenner’s (2009: 127) hypothesis in New State Spaces (2004), a major primary book-length reference point for the state rescaling approach, was that “urbanization processes would engender contextually specific forms of sociospatial dislocation and crisis formation, as well as corresponding strategies of political intervention designed to confront the latter.” This essentially means state spatial strategies that qualitatively modified the scalar architectures of western European cities were reactive in the first instance. That scalar reconstruction became necessary was because earlier scaling strategies, in as much as they produced positive regulatory capacities, simultaneously generated constraints on the attainment of new specific socioeconomic objectives. As Brenner (2009b: 128) explains,

since the 1990s, new forms of state rescaling have emerged largely in response to the crisis tendencies engendered through the first wave of urban locational policy. This has led to the construction of new scales of state intervention (neighbourhoods, metropolitan regions and transnational interurban networks), to the crystallization of additional crisis tendencies and dislocations and, subsequently, to a further intensification and acceleration of rescaling processes. Processes of state rescaling therefore appear to be animated through regulatory failure.

Primary aspects of “regulatory failure” in western Europe were encapsulated within the dismantlement of what Jessop (1993) terms ‘Keynesian welfare state”. These aspects were the crisis of the welfarist state system; the ‘internationalization’ of previously-Fordist corporations;
and the “hollowing out” of the state (cf. Rhodes, 1997; Peck, 1996, 2001). For Jessop and Sum (2006: 271, 281), the decline of the national scale as the “taken-for-granted object of economic management” across Atlantic Fordism, the East Asian ‘trading nations’ and important-substituting Latin America marked the emergence of a “relativisation of scale” in socioeconomic regulation, namely “the absence of a dominant nodal point in managing interscalar relations”. Entwined with this scalar reorientation was (and remains) the emergence of a still-in-the-becoming “Schumpeterian Workfare State”. Key characteristics of this new state form, first identified by Jessop (1993), are concentrated in but not exclusive to western Europe and North America. Specifically, they comprise “the promotion of product, process, organizational, and market innovation; the enhancement of the structural competitiveness of open economies mainly through supply-side intervention; and the subordination of social policy to the demands of labor market flexibility and structural competitiveness” (Jessop, 1993: 9).

As it became clearer that economies would become more functionally integrated at the global scale, Jessop (2002) viewed the Schumpeterian Workfare State as one that has become “post-national”, although how this “post-nationality” is reflected empirically remains an open question and needs to be assessed through specific case studies (see critical discussion in Hay, 2004 and Brenner, 2009). The devolution and outsourcing of central control in this new state form became embedded in the emergence of subnational ‘rule regimes’ – with new politics and socioeconomic policies that involve and impact actors positioned in different scales – in relation to regulatory bodies situated at the national and the global(izing) scales (Peck, 2002; Harrison, 2012; Jonas, 2013). The predominant objective and outcome of state rescaling was and remains the negotiation between different actors to concentrate developmental resources in selected city-regions (Ward and Jonas, 2004; Cox, 2009, 2010; Bayırbağ, 2013). This dissertation aims to document and explain the deliberations that led to the designation of Hengqin, Qianhai and Liangjiang as “nationally strategic new areas”.

Viewed in relation to its conceptual applicability to the post-Mao Chinese context, certain distinctions must be made regarding the scalar organization of state regulation across
China during the Mao era. While state rescaling appears similarly as a response to crisis tendencies of Mao-era regulatory logics, post-1949 socioeconomic life was never predicated on a Fordist mode of production and its corresponding state form, the Keynesian welfare state. The primary question that the conceptual origins of state rescaling raises for theorizing state rescaling in China is how the build-up to the allocation of more resources (including labor power, which was literally kept immobilized during the Mao era) to Chinese city-regions was an outcome of earlier regulatory constraints. As Brenner (2009b: 126) puts it, state scalar structures “are now understood to be historically malleable; they may be ruptured and rewoven through the very political strategies they enable.” The research emphasis, then, is to explore what scalar structures preceded the emergence of city-regions as the primary scales of capital accumulation, what kinds of “political strategies” were “enabled” by earlier waves of scaling strategies, and how these strategies are now the enablers of new waves of scalar reconstructions to consolidate state power. To ascertain this, a robust geographical-historical analysis is necessary.

Specifically, the dissertation will first establish the logics of socioeconomic regulation at the national level during the Mao era (ref. section 1.3). It then probes how these logics were layered on and modified by post-Mao strategies that privileged the allocation of capital and labor power to targeted city-regions. The situation of contemporary rescaling tendencies within the history of regulatory reconfiguration in China during the Mao era avoids problems associated with the direct transplant of rescaling frameworks applied to the western European context. By extension, it sidesteps problems associated with periodization by offering a platform to explore the constitutive and constraining effects of inherited policies (more on this shortly). In turn, this approach allows the dissertation to address the following questions: What were the crisis tendencies generated by “first wave” state spatial strategies of the Mao era? How did these tendencies reflect “regulatory failure”, in Brenner’s (2009b: 128) parlance, while they simultaneously enabled the production of new regulatory capacities that were used in turn to drive urban-oriented industrialization over the last three decades?
Working in relation to this geographical-historical reconstruction, the dissertation traces the emergence of the “new areas” and explains how this emergence reveals 1) how the sharing of regulatory power is actualized through active negotiation; and 2) how, through the experimental policies instituted in the “new areas”, the ‘national interest’ could potentially be reshaped. These emergent forms are not presented as outcomes of the unidirectional evolution towards meta-governance; they are, rather, expressions of an emergent power-preserving model that reproduces centralized control through decentralization. The outcome is a geographically-sensitive narrative of the contradictions, tensions and struggles involved in generating sustained economic growth in contemporary China.

That decentralization is more than a zero-sum game in post-Mao China is attributed to the Chinese central government’s experimental approach to reforming the spatial logics of socioeconomic regulation (see, e.g. Rawski, 1995; Naughton, 1995; Zhu, 2007). This approach is defined as the institution of reforms that could potentially alter the entire national regulatory structure in selected locations. It differs from the marketizing ‘shock therapy’ transitional approach adopted by economies of the former Soviet ‘socialist’ bloc. Under ‘shock therapy’, the whole national economy gets subjected to drastic changes in socioeconomic regulation: state assets are often sold off swiftly to putatively ‘market actors’ (e.g. in Russia and eastern Europe) while state welfare is rapidly curtailed. The consequence is a situation where the majority of the people were left unemployed by the sudden contraction of the state economic sector and the inability of a nascent market economy to absorb this unemployed population. Launching market-oriented reforms a decade before the Soviet(-linked) economies, the CPC was aware that changes were needed to achieve transformative change in socioeconomic regulation, but there was uncertainty on what directions to take without undermining its fundamental Marxist-Leninist principles. The end-goal of reforms, as Deng Xiaoping explains in 1978, is to create room for the interaction of relentless experimentation and the resolution of contradictions – it does not follow a predetermined “unified national agenda”:

Before a unified national agenda is developed, new methods can be launched from smaller
parts, from one locality, from one occupation, before gradually expanding them. The central
government must allow and encourage these experiments. All sorts of contradictions will emerge
during experimentation, we must discover and overcome these contradictions in time. (Deng,
1994: 150; author’s translation)

And what happened through Deng’s tenure in the 1980s and early 1990s exemplified a highly
dynamic approach to development that generated qualitatively distinct outcomes. As Rawski
(1995: 1152) puts it:

China’s reforms typically involve what might be termed “enabling measures” rather than
compulsory changes. Instead of eliminating price controls, reform gradually raised the share of
sales transacted at market prices. Instead of privatization, there was a growing range of firms
issuing shares. Production planning does not vanish, but its span of control gradually shrinks.
This open-ended approach invites decentralized reactions that the Centre can neither anticipate
nor control.

This dissertation argues that the “open-ended” approach continues to define the contemporary
spatial logics of socioeconomic regulation in China. Much has changed in post-Mao China, to
be sure, but reforms in China remain, in Zhu’s (2007) observation, “without a theory”.
“Crucially”, Peck and Zhang (2013: 380) argue, this approach “has meant that endogenous
state capacities and centralized party control have been maintained through China’s
developmental transformation.” What these recent scholarship suggest is that post-Mao
experimental reforms and state rescaling do not lead to absolute autonomy for subnational or
supranational governments. Rather, it could be the lack of a “unified national agenda” vis-à-vis
dynamic change in the global economy that generates new impetus for experimentation in
targeted locations. The important conceptual question, then, pertains to the ability of the
experimental approach to transcend the limits of inherited institutions and/or repurpose these
institutions to meet the demands of contemporary regulation.

While policy experimentation is never launched with the aim to conserve old regulatory
logics, the fact that experiments continue to be “contained” within strategically selected spaces
strongly suggests it is not easy to overcome regulatory logics inherited from previous regimes.
For instance, the 1958 ‘household registration’ or hukou institution continues to deny social
benefits to rural migrants. This has inevitably generated social discontent and created
longstanding speculations about its removal (Chan and Buckingham, 2008; Fan, 2008). Such is
the anger at this institution, 13 major newspapers took the unprecedented step of publishing a joint front-page editorial on 1 March 2010 – just before the annual ‘two meetings’ of top CPC delegates in Beijing – calling for its immediate removal. The reforms in Liangjiang New Area marked a tentative step in this direction, as Chapters 8 and 9 will elaborate, but there remains no progress at the national level. Similarly, the preexisting state monopoly on financial capital supply – a Mao era legacy – precludes many private investors from accessing capital from the formal financial market. While the financial system has widely adopted management mechanisms employed by market economies after the ‘reforms and liberalization’ of 1978 (e.g. the public listing of banks, issuance of bonds, separation of owners from management, etc.), the entire system continues to be a function of party developmental goals (see Tsai, 2004; Walter and Howie, 2011). Taken together, these phenomena strongly suggest it has not been easy for the CPC to relinquish Mao-era regulatory logics. And it is for this reason that the contemporary reforms also reflect the constraints of institutional path-dependency.

Given that ‘path dependency’ has evolved into a widely used – and increasingly unclear – concept, it would be useful to define how the term is applied in the subsequent discussion. Arguably the most common definition of path dependence is the dependence of current and future actions/decisions on the outcomes of previous actions or decisions. As Page (2006: 89) puts it, path dependence “requires a build-up of behavioral routines, social connections, or cognitive structures around an institution.” The formation of a path is commonly taken to be an accidental outcome; a chance event. Central to this process is the eventual formation of institutional “lock in”, in which a practice or policy becomes effective or feasible because a large number of people have adopted or become used to this practice or policy. Any drastic alterations to the path, even if the available alternatives were inherently superior to the existing institutional practices, would thus encounter resistance from groups of ‘locked in’ actors (in the Chinese context, senior politicians in the Politburo, ministries, state-owned enterprises, village collectives, etc.) whose interests would be compromised by the proposed changes.
The key empirical question of the dissertation is to ascertain and explain how the rationale of state rescaling and impacts of policy experimentation in China interact with geographically-variegated developmental pathways instituted by earlier regimes. At one level, the concept of path dependency is an attractive tool to explain this interaction. In exchange for retaining some Mao-era institutions, it could be argued that domestic economic actors gained more ‘freedom’ to accumulate capital, in turn deepening the dependence on these institutions even in the face of their limitations (see Chapters 4 and 5). And it is within this path-dependent context that the contemporary “nationally strategic” reforms are situated (see Chapters 6 to 9). At another level, however, the conceptual application of ‘path dependency’ in this dissertation was mindful of some of its biggest problems. One major problem is the lack of research focus on the “build up”, in Page’s (2006) parlance, to the formation of path-setting institutions. Developing this point, Peters et al (2005) argue that there exists a tendency in research on institutional path-dependence to accord history a logical trajectory, or “retrospective rationality”, such that available alternatives and political conflicts that occurred in tandem with the actual occurrences of historical processes are neglected. It is important, argue Peter et al (2005: 1282), to be cognizant “that prediction of persistence does not help at all in understanding institutional change.”

To theorize “change in a world of persistence”, Peters et al (2005) propose examining the process of policy initiation; the political actors involved in the build up to the policy; policy evolution; the generation of ideas around the new institutions; and the dynamic interaction between structure and agency. This broader focus could potentially advance concepts of path-dependency to an extent that it becomes equally capable of explaining change as it does persistence:

Arguably, a theory that is suitable as an organizing frame for at least part of the social sciences needs to be able to explain a range of outcomes. Whether or not change is the ubiquitous phenomenon that some scholars argue it to be, it is certainly an important phenomenon and a theory should be able to cope with it adequately. (Peters et al, 2005: 1288)

Taking these points into consideration, this dissertation developed and put into practice a conceptual framework that is capable of explaining “a range of outcomes” associated with
policy experimentation and state rescaling in China (ref. Chapter 2). At this juncture, it would be helpful to clarify how this framework is positioned vis-à-vis the broad and relatively mature literature on ‘government’, ‘governance’ and ‘meta-governance’. Contemporary socioeconomic regulation in advanced economies is taken to have departed from the traditional mode of ‘government’, namely the central and commanding way in which the state organizes and controls its subsidiary governmental and non-governmental institutions. Two major characteristics comprise this governmental mode of regulation: 1) stakeholders in the policy formulation process are narrowly confined to actors that are state-linked (e.g. bureaucrats, administrative institutions, state-owned enterprises, etc.) and/or state-endorsed (e.g. non-governmental organizations and business associations); and 2) political power flows in a hierarchical, top-down fashion. With the intensification of globalizing processes in the late 1970s, a new mode of socioeconomic regulation conceptualized as ‘governance’ has emerged. Governance is defined as a regulatory mode that no longer privileges state-linked and state-endorsed actors in the establishment and execution of policies; a wider range of organizations including corporations, NGOs and supra-national organizations like the World Trade Organization negotiate and share regulatory power with the state. Political power flows across different regulatory ‘networks’ – or ‘heterarchies’ – rather than in one clearly defined hierarchy (Rhodes, 1997; Jessop, 1995, 1998; Peters and Pierre, 1998).

The emergence of ‘governance’ led to further debates on whether a zero-sum regulatory phenomenon has ensued (i.e. more governance leads to less government). This in turn led scholars of socioeconomic regulation to develop the concept of ‘meta-governance’, which is taken to be a dynamic regulatory process in which ‘self-organization’ (governance) remains ‘organized’ (government). By Jessop’s (1998: 19) definition, meta-governance refers to the facilitation of “self-organization in different fields” and “also the relative coherence of the diverse objectives, spatial and temporal horizons, actions and outcomes of various self-organizing arrangements”. For Sorensen (2006: 102), meta-governance is driven “not only by state actors but also by various networks of public and private actors and a whole range of
supranational, regional, and local levels in the formal political system”. In terms of geographical expression, write Jessop and Sum (2006: 267), metagovernance is a multi-scalar process: it “is reflected in the continuing redesign, rescaling and adaptation of the state apparatus, sometimes more ruptural, sometimes more continuous, and the manner in which it is embedded within the wider political system.” Viewed in relation to this literature, the key conceptual question is whether state rescaling and policy experimentation (as a form of adaptive governance) represents or perhaps even facilitates a departure from ‘government’ to ‘governance’ and/or meta-governance.

At one level, the designation and production of “nationally strategic new areas” as experimental regulatory platforms can be construed as an expression of “meta-governance”. Each new area represents a unique experimental zone, or, in Jessop’s term (1998: 19), a different “field”, within which state actors possess relative autonomy to form new regulatory networks with non-state actors in different locations. The very necessity to form these new regulatory networks beyond the sphere of the party-state apparatus indicates growing interdependence with other economic and extra-economic actors. The critical aspect of this scalar shift is that it indicates the evolution of party-state regulation across China into a multi-level, multi-actor process. In the build-up to and after the formation of Liangjiang New Area, for instance, the Chongqing government was proactively seeking to alter the geographies of transnational production networks through negotiating directly with transnational lead firms like Hewlett Packard and their suppliers like Foxconn (ref. Chapter 8). It was also working simultaneously with the central government and the national governments of Kazakhstan, Russia and parts of the EU to push through a now-functioning trans-continental railway. That this development was never anticipated by the Chinese central government reinforces Jessop’s (2002) view of meta-governance as operating in a context of ‘negotiated decision-making’. It also supports Sorensen’s (2006: 102) view of meta-governance as involving “a whole range of supranational, regional and local levels in the formal political systems”.

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At another level, however, these new experimental zones remain constrained by developmental paths established by previous rule regimes. As Chapters 6 and 8 will show, the designation of these new experimental territories does occur “in the shadow of hierarchy”, as Scharpf (1994: 40) views negotiations with non-state actors ‘embedded’ within pre-existing state structures. Indeed, as a process involving key CPC cadres like Wang Yang and Bo Xilai, state rescaling is integral to the reproduction of hierarchy (cf. Li and Wu, 2012; Su, 2012). This is because the designation of experimental objectives in each new area is contingent on the approval of agencies linked to the central government. This phenomenon contradicts one characteristic of meta-governance, namely “the shaping of the context within which heterarchies can be forged rather than developing specific strategies and initiatives for them” (Jessop, 1998: 42). Not only is the forging of ‘heterarchies’ through scalar reconstruction and policy experimentation a strategy in itself, the types of policies to be reintroduced in the new regulatory spaces were connected to broader strategic considerations of national-level agencies.

Given that the regulatory bureaus of the ‘new areas’ undertake reforms to fulfill specific aspects of a ‘national strategy’, what constitutes state rescaling in China is not a form of meta-governance that represents an “alternative” to hierarchical control (contra Sorensen, 2006: 102). Neither is state rescaling a necessary step towards more democratic establishment and attainment of socioeconomic objectives (contra Sorensen and Torfing, 2009). The emergent processes in these experimental zones exemplify a mix of hierarchical control and heterogeneous regulatory networks, the latter being to some extent a function of the former. Specifically, the proactive establishment of spaces of policy experimentation provides fresh conduits for the Chinese central government to achieve “specific strategies and initiatives” while leaving, at the same time, the flexibility to contain any experimental effects that could destabilize existing policies deemed fundamental to reproducing national-scale structural coherence. This flexible regulatory capacity echoes Börzel's (2011: 58) caution against “reifying
networks as omnipresent governance forms and treating them as governance panacea”. It also corresponds with Jessop’s (2003: 4, emphases added) observation that although various governance mechanisms may acquire specific techno-economic, political, and/or ideological functions, the state typically monitors their effects on its own capacity to secure social cohesion in divided societies. It reserves to itself the right to open, close, juggle, and re-articulate governance arrangements not only in terms of particular functions but also from the viewpoint of partisan and overall political advantage.

In view of this retained “right” of the state to reproduce its “partisan and overall political advantage”, the dissertation’s conceptual emphasis on path-dependency indicates how state rescaling in contemporary China is not about the straightforward reassertion of hierarchical control over the national political economy. Hierarchical control never disappeared. What has changed, rather, is the active reconfiguration of top-down regulation through geographically-targeted policy experimentation in relation to the demands and pressures of events emergent at various scales. Instances of these events include the socialist internationalization drive of the 1950s, geopolitical threats in the 1950s through to the early 1970s, persistent religious conflicts in Tibet and Xinjiang, pressures from global regulatory regimes to further ‘liberalize’ markets after the 2008 global financial crisis, etc. Flows of political power and control were affected, leading in turn to experimental strategies to reconstitute that power.

As mentioned previously, the extent of the reconstitutive process is triggered by and an outcome of policies inherited from earlier national rule regimes. Policies instituted by these regimes may have encountered constraints in the current conjuncture, triggering further reforms. One particular constraint is path-dependency. If many interest groups stand to benefit from the place-specific paths established by earlier policies, resistance to change is likely to be significant. Set within the broader macroeconomic and socio-democratic pressures of change, the tensions between the actors pushing for geographically-targeted reforms and those against change would thereby strongly determine whether the ‘miraculous’ economic growth of the past three decades could continue in China. And it is for this reason that the dissertation will focus on illustrating the politics during the build-up to and after the formation of the “nationally strategic new areas” in the Pearl River Delta and Chongqing.
In addition, state rescaling is not delimited to a key characteristic of ‘governance’, namely that of “de-centred context-mediated steering” (ref. Jessop, 1998: 36). Rescaling is context-mediated, to be sure, but its end-goal is – or, at least in the post-1949 Chinese context, has to be – about the attainment of objectives that were instituted to sustain CPC state power (cf. Chapters 2 and 4). Objectives of relevance to the discussion in this dissertation are the interrelated ideological commitments to ‘Common Affluence’ and socio-spatial egalitarianism. This aspect demands further attention for one key reason: the ability of the Chinese central government to reproduce its control over the national political economy is contingent on the success (or failure) of geographically-targeted policy experimentation, yet it is unclear if the formation of new multi-level and multi-actor regulatory networks between economic (including SOEs and TNCs) and extra-economic institutions (e.g. the Qianhai Bureau) would allow the central government to achieve its strategic objectives (e.g. the post-2008 attempt to ‘internationalize’ the RMB, the management of demographic urbanization, macro-scale industrial restructuring, etc.).

In view of these considerations, the dissertation established a research design that explored the formation of new governance platforms (expressed in and through the ‘nationally strategic new areas’), how the new experimental policies unfold in these platforms, and, by extension, whether the inherited regulatory logics are jettisoned or repurposed. Specifically, the approach to data collection and analysis allows for an understanding of 1) how specific institutions were formed in the Mao era through spatial reconfiguration; 2) how this reconfiguration reproduced rather than reduced uneven development; and 3) how these institutions became increasingly untenable in the post-Mao era because experimental policies generated variegated developmental pathways across the country. The primary presupposition of this research design is that institutional emergence and evolution in China are not outcomes of ‘accidents’ or ‘chance events’ – institutions have geographies, and these geographies are actively produced and contested (see Peck, 2002; Martin, 2010). How this research design sets up the remaining chapters of this dissertation will be discussed in the next section.
1.3 The research design and dissertation outline

1.3.1 The research design

Because of this dynamic interaction between the pre-established institutional practices and place-specific reform initiatives, attempts at path-changing policy experimentation could in fact undermine change by generating new political, economic and/or social problems. It is for this reason that the production of new spaces of policy experiments across China is geographically confined. After all, the geographical delimitation of experimental reforms makes it possible – at least in theory – to reverse change if things go wrong. To gain a more incisive understanding of this dynamic interaction would thus entail a research design that sets up the analysis of how experimentation in the “nationally strategic new areas”, effected through state rescaling, interacts with and (potentially) transforms path dependency. This section presents the outline of this research design and the chapters that were consequently developed.

The empirical discussion will be presented in two parts. The first part comprises a geographical-historical re-evaluation of regulatory strategies launched since the Mao era, and the second analyses of contemporary cases of state rescaling and policy experimentation. To produce a coherent and integrated narrative, the primary challenge was to craft and put into practice a research design that could dynamically connect the two parts so that the present could offer distinct avenues to analyze the past, and the resultant geographical-historical analysis could re-inform theorizations of the present. In so doing, this mutually-reinforcing research design could avoid positioning the post-Mao ‘transitional’ present as something like the opposite to the Maoist past. By extension, it would not construe institutions inherited from the Mao era as fixed constraints for an evolution towards deepening marketization and its putative corollary, political democracy.

The two-part research process is presented diagrammatically in Figure 1.2. The first half of the research process, as the top arc in Figure 1.2 shows, began in 2011 with observations that experimental policies were introduced in selected city-regions (i.e. the Pearl River Delta and Chongqing). It was at this point that research questions began to develop, and an attempt
was made to deepen understanding of these reforms through the collection and analyses of the new policies. Soon it became clearer that the designation of Hengqin, Qianhai and Liangjiang New Areas exemplified two broader – and potentially contradictory – economic-geographical imperatives confronting the CPC, namely a) the political need to fulfill Deng Xiaoping’s promise to manage uneven development and drive the spatial equalization of living standards across China and b) the challenge of building growth-enabling institutions under conditions of political uncertainty and stark differences in productive potential between the industrialized coastal city-regions and the predominantly agrarian western interior. This called for more research on the policies that came before, which led to the second part of the research design.

The objective of this second part is to produce a reconstructed geographical-historical narrative that illustrates inherited spatial projects and strategies that enabled, guided, channeled and constrained this most recent round of regulatory reforms (ref. bottom arc in Figure 1.2). This objective had a direct impact on the fieldwork, as the focus was not only to understand the implications of current reforms, but also to derive more information on and interpretations of policies implemented as far back as the Mao era. In this regard, the geographical-historical exploration is anchored to the present. To be presented in Chapters 4 and 5, the discussion demonstrates how reforms in the “new areas” affect and are affected by three major Mao era policies, namely land nationalization, the People’s Communes and the hukou system of population control. Conceptually, this reconstructed narrative allowed for an exploration of the extent to which institutional path-dependency contributed to state rescaling and policy experimentation in post-Mao China.
Figure 1.2 Overview of the research design

How the remaining chapters constitute and fit into these two parts of the dissertation will be presented in the next three subsections. The rationale of the literature review, conceptual framework and research methods will be summarized in section 1.3.2. Section 1.3.3 will discuss the contributions of Chapters 4 and 5 (the geographical-historical analysis); Chapters 6 to 10 (the cases and conclusion) will be summarized in section 1.3.3. As mentioned earlier, the case studies of contemporary rescaling and the re-evaluation of Mao-era policies of socioeconomic regulation are to be read as dynamic components of a broader theorization process: one component draws from and informs the other. Interwoven through both components is the overarching thesis of this dissertation: *each new layer of spatial reconfiguration and policy experimentation illustrates a fundamental attempt to augment central control by way of decentralized governance.*
1.3.2 The constitutive framework and research methods: Chapters 2 and 3

On reflection, the dissertation design became clearer following an extensive literature review of centralization-decentralization governance in China and the role of instituted uneven development as constituent and consequence of developmental strategies. Presented in Chapter 2, the primary purpose of these reviews was to determine the extent to which 1978 marked significant shifts in regulatory approach as well as a move towards increasing uneven development. Making clear connections and divergences between regulatory approaches of the Mao- and post-Mao CPC regimes, the review called for a more incisive appraisal of the extent to which these reforms mark a path-generating attempt or, perhaps counter-intuitively, whether they perpetuate regulatory logics instituted in the Mao-era. To do so, the chapter develops a conceptual framework that examines state rescaling as a dynamic process driven by actor-specific political agendas and the constraints of inherited institutions. Aimed at offering a historically sensitive mapping, the framework builds on and develops concepts by rescaling scholars, namely Swyngedouw (1996, 1997), Peck (2002, 2003) and Brenner (2004, 2009). Specifically, it calls attention to the political, social and economic implications of state rescaling.

The research methods and critical reflections on the data collection process will be presented in Chapter 3. The chapter explains how the research exemplifies what Peck (2005: 132) terms the “dirty hands” approach to socioeconomic research, namely the production of “empirically rich accounts of concrete and socially-situated processes” in which “history is taken seriously”. Specifically, the research drew on and brought together a broad range of empirical materials that include interviews with state-linked planners, policy documents, newspapers and literature published in China, etc. Data collection began with the collection of policy reports and news articles in the second half of 2011. This was followed by three separate field visits to Beijing, Chongqing and the Pearl River Delta in 2012 and 2013. During the intermittent periods between these field visits, attempts were made to build on the first-hand data through the collection of historical and statistical materials. The chapter concludes by explaining why the triangulation between data sources is more than just the application of mixed methods for its
own sake – it is a necessary maneuver within a Chinese context where first-hand information from key policymakers are not easy to come by.

1.3.3 The geographical-historical conditions of central control: Chapters 4 and 5

Working in relation to the empirical materials collected for the contemporary case analyses, Chapters 4 and 5 evaluate the politics and policies that made possible the restructuring present. These chapters explain how the ‘miraculous’ outcome of post-1978 ‘reforms and liberalization’ is in effect a partial re-expression of regulatory competencies developed in the Mao-era. “To understand China’s post-1978 economic boom”, Gore (1999: 25) argues, “our attention should be directed not only to the marketizing reforms, which have been the focus of most analyses, but also to the institutional context of the boom”. These chapters build on Gore’s call to explain the “persistence of basic communist institutions” by examining how rapid economic growth was (and remains) shaped by a regulatory structure that exists in a dynamic, three-way tension with its inherited state spatiality and ideological commitment to ‘common affluence’.

As Chapter 4 will elaborate, three major policies of the Mao-era established specific spatial logics of socioeconomic regulation in post-Mao China. These policies were, namely, the peasant-led rebellions against landlords, which culminated in the 1950 Land Reform Act (cf. Table 5.1); the collectivization of landownership and economic production in the countryside, which led to the formation of the People’s Communes in 1958; and the geographical segregation of Chinese spatiality – and correspondingly the Chinese populace – into ‘agricultural’ and ‘non-agricultural’ economic sectors through the hukou institution. The overarching objective of the analysis is not to solely revisit and review China’s nascent state formation process (though that is important in itself): it is to ascertain how Mao-era regulatory logics connect to experimental strategies implemented by subsequent regulatory regimes, namely those led by Deng Xiaoping⁴, Jiang Zemin, Hu Jintao and now Xi Jinping.

The major policies that reconfigured the socio-spatial basis of production in post-Mao
China will be presented and evaluated in Chapter 5. The chapter makes the argument that it was from the rural scale – not the SEZs or cities – that individual entrepreneurship began to flourish in post-Mao China. Indeed, while the SEZs are widely-taken as symbols of China’s re-integration with the global economy, the primary target of concrete reforms in the 1980s was the vast rural hinterland, where 80% of the population resided in 1978. It was only when the rural reforms converged with an increasing coastal- and urban-bias in resource allocation in the mid-1990s that coastal-interior and urban-rural uneven development became (once again) more defined. The chapter concludes that the year that the economic ‘miracle’ truly began should be 2001 rather than 1978 – accession to the WTO offered the opportunity for the surplus rural labor to be officially subsumed by transnational circulatory capital. China very quickly became known as ‘the world’s factory’, and GDP grew exponentially. Yet it was also during the same period that the 10 socioeconomic problems highlighted in Table 1.1 became full-blown. With this conclusion, Chapter 5 sets up the analysis of a new round of policy experimentation expressed through the designation of “nationally strategic new areas”. This analysis will be presented in Chapters 6 to 9.

Read in relation to the contemporary cases, Chapters 4 and 5 complicate the notion that an epochal shift has taken place in post-1978 China. These chapters open up room to evaluate why, unlike the fast-track deregulation adopted in the former ‘socialist’ economies of the Soviet Union and the eastern European Soviet bloc, the Chinese state apparatus worked to reconfigure rather than renounce its involvement in the economy. The other problem with the claim to epochal transformation is the non-linear emergence of geographical-historical phenomena. Deng’s approach to reforms in the late 1970s, assessed against a broader historical context, was in effect a re-introduction of two abandoned policies from the early 1950s and the early 1960s (ref. Chapter 5). These policies were, respectively, the incorporation of private enterprises in economic development (driven by Liu Shaoqi and, ironically, Mao himself) and the ‘scaling down’ of rural economic production from the ‘commune’ to the ‘household’ (again driven by Liu, with the support of major policymakers like Li Fuchun, Deng
Xiaoping, Deng Zihui and Chen Yun).

Perhaps more interestingly, the strategy to capture transnational capital investments through Hong Kong following the establishment of four Special Economic Zones (SEZs) in 1980 strongly echoed Josef Stalin’s advice to Mao Zedong in the late 1940s to continue trade with Hong Kong rather than institute geo-economic insulation (cf. Li, 2006: 63). More recently, the highly-publicized appeal to Maoist-notions of egalitarianism in Chongqing between 2007 and 2012 recuperated redistributive measures that directly benefit the people (in terms of access to social benefits and employment), measures that seemingly dissolved with the dismantlement of the People’s Communes and the restructuring of SOEs. The non-linearity of geo-historical evolution and the contemporary relevance of Mao-era institutions strongly suggest it is premature to proclaim the occurrence of epochal transformation in China.

1.3.4 Situating the experimental present: Chapters 6 to 10
To ascertain how the institutional inheritances from the Mao era shaped and enabled the production of ‘nationally strategic new areas’, the research process began from an analysis of experimental policies implemented in the chosen areas and how these policies were justified discursively. These contemporary cases are presented in two segments that each comprise two chapters (Chapters 6 to 9). The first chapter of each segment explores how key actors built on the geo-historical context to drive the national designation of specific territories; the second examines the implications of key policy experimentation in the areas. As Chapter 6 will show, Hengqin and Qianhai New Areas did not emerge out of nowhere; they were part of a broader industrial upgrading strategy officially known as “double relocation” (shuang zhuanyi) or “emptying the cage, changing the birds” (tenglong, huanniao). Driven by the new Guangdong provincial government after 2007, the strategy aimed to relocate unwanted industries and labor power. The chapter shows how the this strategy was contested by some actors from the central government and discursively (counter-)justified by Guangdong officials. The overarching objective of the chapter is to show how the state rescaling process (i.e. the designation of
Hengqin and Qianhai as “nationally strategic” sites of policy experimentation) was entwined with the political necessity to overcome the detrimental economic effects of the ‘double relocation’ program.

The specific reforms are documented and evaluated in Chapter 7. In Hengqin and Qianhai New Areas, new border regulations were established to ‘liberalize’ flows of goods, money and people from adjacent Macau and Hong Kong (China’s two Special Administrative Regions that function as open conduits to the global economy). However, a new border between Hengqin to the mainland was simultaneously constructed to prevent the ‘liberalized’ flow of goods and people to move smoothly into China ‘proper’. Qianhai is similarly a re-bordered zone, within which approved financial institutions from Hong Kong could issue unlimited loans in Chinese yuan to Qianhai-based businesses (triggering the ‘backflow’ of Chinese currency from offshore centres). The chapter shows how the emergence of these new experimental spaces raise the question about the geographical limitations of economic liberalization in China: Chinese policymakers want more of such ‘free’ spaces at the national level (hence the production of Hengqin and Qianhai), but these spaces could only be free insofar as they are subject to new forms of geographical control.

Various developmental issues pertaining to urban-rural integration and the reduction of coastal-interior economic disparities are identified and presented in the case study of Liangjiang New Area in Chongqing (Chapters 8 and 9). To fully explain why these reforms were scaled at the level of the city-region (Chongqing), a historical exploration of institutional evolution proved important. This exploration is presented in Chapter 8. The chapter discusses how the localized lack of market reforms in the Deng and Jiang eras – vis-à-vis the marketization process along the coastal seaboard – impelled the Chongqing government to reconfigure and in turn enhance its intervention in the economy. In other words, strong state involvement in the pursuit of equitable urbanization in Chongqing, which the Asia Times (24 November 2009) portrayed as emblematic of the “resuscitation of Maoist norms”, ironically did not arise as a result of some cadres’ insistence on following the Mao-era economic regulation.
Rather, the retention of strong state economic intervention was made possible by developmental paths generated in the post-Mao era. Interestingly, this means path-changing attempts in the post-Mao era confined some geographies (like Chongqing) on the old ‘big state’ pathway of the Mao era. As such, while the strong state in present-day Chongqing is an extension of the strong state past, it now also includes post-Mao reforms as a condition of possibility. And as the chapter will elaborate, it was this strong state role that enabled the Chongqing government to actualize the designation of Liangjiang New Area as a “nationally strategic” location in the CPC’s economic restructuring agenda.

Chapter 9 proceeds to evaluate the impacts of socioeconomic reforms in Chongqing. The colossal tension caused by the large-scale attempt to build public rental housing for new peasant migrants in Chongqing illustrated how two major reforms implemented at the national scale have potentially encountered limits, namely 1) the persistence of the hukou institution, which designated peasants in the cities as socio-spatial ‘aliens’, and 2) the apparent lack of employment opportunities in the rural hinterland, which ‘pushed’ peasants to seek employment in the cities. The fact that equitable urbanization is used to justify the intensification of export-oriented industrialization (led by the Liangjiang New Area) contradicts Deng’s earlier strategy to privilege capital accumulation over social welfare provision. And it is this contradiction, this chapter suggests, that led to strong opposition to the Chongqing reforms: some interest groups could have become too embedded in the path established by the Deng administration that path-changing policies had to be repudiated.

Bringing the two parts of the dissertation together, Chapter 10 lists and critically reflects on five interrelated conclusions. These conclusions are: 1) The main difference between the policy experimentation in the Pearl River Delta (Hengqin and Qianhai New Areas) and Chongqing (Liangjiang New Area) is how they generate new regulatory paths in the name of the ‘national interest’. 2) The policy experimentation in the two contemporary field sites is in itself filled with uncertainties and inconsistencies, which underscores the lack of a central planning agenda. 3) Designed to fit the preexisting socioeconomic conditions of Guangdong
and Chongqing, the experimental reforms are inherently contradictory: it would be unfeasible to have these experiments extended ‘as is’ to other locations with different socioeconomic developmental pathways. 4) Contrary to the Mao era, there is much greater spontaneity and spatial selectivity in the ways initiatives of national significance are proposed, evaluated and ultimately implemented. 5) State rescaling and geographically-targeted policy experimentation have become necessary strategies for the Chinese central government to preserve domestic socioeconomic stability vis-à-vis an increasingly volatile global context. Building on these conclusions, the chapter closes with an invitation to explore further the extent to which central planning continues – or perhaps has just begun – to define the spatial logics of socioeconomic regulation in China.

1.4 Conclusion

This dissertation tells a story of experimental change in China by exploring the connections between state rescaling, policy experimentation and (the degree of) path-dependency. It explores how path-dependency, expressed in the geographically-variegated effects of inherited institutions, is entwined with path-generation, expressed in the geographically-targeted attempts to overcome preexisting developmental challenges through experimental reforms (cf. Tables 1.1 and 1.2; Figure 1.1). This entwinement is the driving force that reshapes the characteristic spatial forms of state rescaling in China. In this regard, scale does not constitute the sole ‘object’ of analysis in the dissertation; rather, its (re)construction is taken as a simultaneous medium and outcome of Chinese statehood (cf. Swyngedouw, 1996; Peck, 2002, 2003; Brenner, 2004). The analysis thus does not presuppose there is anything inherently positive or negative to rescaling as a regulatory means; whether rescaling is ultimately meaningful politically, economically and socially, is to be determined in retrospect, in conjunction with different analytical approaches (cf. Brenner, 2009).

Working from the contemporary cases (i.e. the ‘new areas’) through to the historical materials, this retrospective approach offered strong empirical grounding for evaluating
national-scale regulatory logics since the Mao era (ref. Table 1.2). As mentioned earlier, because history is never linear and processes do not evolve from just one location, there are various ruptures, accidents and contingencies that have yet to be uncovered. The contemporary cases 1) provide new angles to probe the existence of these complex geo-historical processes and 2) examine whether these processes fit into the predominant narrative on socioeconomic development in China today, namely, that the Chinese political economy has definitively entered into a new ‘transitional’ epoch (more on this in section 2.2). Anchoring the re-evaluation of Mao-era spatial projects to empirically-identifiable institutional reforms in the present precludes an indeterminate search for origins or pre-determining an ideal-typical endstate that would count as ‘Truth’ (e.g. a fully self-regulatory market economy or its putative opposite, a Marxian communist mode of production). The two interrelated research goals are to explore why specific institutions continued to play significant roles amidst or in spite of regulatory experimentation and, more importantly, what attempts to reform these institutions over the past three decades mean for an understanding of China’s contemporary socioeconomic ‘transition’.

Read in relation to each other, the two empirical components demonstrate how specific regulatory logics of the Mao-era have been repurposed while others were jettisoned to enable the transitional present. The institutional continuity after each round of experimental reforms since 1978 is construed as of theoretical significance: in spite of colossal changes engendered by new policy experimentation, the retention of inherited institutions offers a new entry point from which to investigate the relationship between the Chinese economic growth ‘miracle’ and Mao-era regulatory logics. Economic geographies both along the eastern seaboard and the less developed interior may have changed with each round of regulatory restructuring, and GDP growth is at once a corollary of and contingent on these rolling changes, but, as it will be emphasized in the concluding chapter, this has come about because of interactions with rather than in spite of the spatial logics of regulation instituted during the Mao era. To portray the post-Mao period as antithetical to the Mao era would thus preclude an exploration of inherited
institutions as capacities that (seemingly still) produce what appears to be a politically stable state apparatus. The important question, rather, is what kinds of inherited capacities had been useful to achieve the developmental goals of ‘Common Affluence’ (gongtong fuyu) and ‘Harmonious Society’ (hexie shehui) through the post-Mao period. As the following chapters will show, contemporary policy experimentation in the rescaled “nationally strategic new areas” strongly suggests it would be premature to pronounce the post-Mao Chinese economic growth ‘miracle’ as a mirror of Mao-era institutional errors or, for that matter, as a function of post-1978 reforms. Whether subsequent changes became possible because or in spite of this inheritance still needs to be established. This dissertation takes a small step in this direction.

Notes

1 This per-capita growth is remarkable in another way because the population grew from 1 billion in 1980 to almost 1.4 billion in 2010 (Chinese State Council 6th Population Census Office, 2012). This was a 40% increase. Viewed this way, population growth was arguably constitutive of – rather than a constraint on – economic expansion (more on this in Chapter 2).

2 The primary aspects of these reforms were greater autonomy for individual households to engage in private production, including the sale of one’s labor power in private labor markets; the dissolution of the People’s Communes, which saw further state withdrawal from welfare provision in the rural hinterland; gradual relaxation of urban-rural demographic flows; and engagement with transnational circulatory capital.

3 This, incidentally, is the rationale for the ‘shock therapy’ approach to reforms in the former Soviet bloc, i.e. to incapacitate defenders of the old regime. Geographically-targeted policy experimentation is an alternative approach to “managed” transformation in which everything changes at once.

4 It is important to note that prior to Deng, Hua Guofeng was the official Chairman of the CPC (and indeed he called himself ‘Chairman Hua’). As Mao’s appointed successor and a keen supporter of Maoist policies (his goal was to perpetuate these policies), his short-lived tenure is considered in this dissertation to be part of the Mao era rather than as a separate regulatory regime.
2.1 Introduction

In a meeting with then-Danish Premier Poul Hartling in October 1974, Mao Zedong made an interesting admission that the CPC’s approaches to economic regulation were “not much different from the old society” (CCCPC Party Literature Research Office, 1998: 413). In the ‘old society’ shaped by feudalism and warlordism, these regulatory approaches were, namely, the use of the wage system; the allocation of rewards according to expended labor power; and commodity exchange through fiat money (mainly the fabi and Gold Yuan issued by the Kuomintang and the Japanese yen in Manchuria). At the time, Mao was highlighting to Hartling one major institutional invention he considered definitive of ‘new China’: the collective ownership of land, labor power and money. But his juxtaposition of absolute public ownership with quintessentially Marxian categories of ‘capitalistic’ processes explicitly – if inadvertently – defined the CPC’s fundamental economic role in ‘new China’, namely to facilitate and retain the extraction of monetary-defined surplus value from labor power. While much has changed in the three decades that followed the Mao regime, the fact that the CPC has gone on to become a more proactive player in the process of capital accumulation arguably gives Mao’s observations a contemporary resonance.

That Mao’s admission was paradoxical is not in question; that the methods of the ‘old society’ were given prominence at the Third Plenum of the 18th Party Congress in November 2013 requires explanation. On one hand, the current Xi Jinping regime decided to give “decisive” roles to market mechanisms in economic regulation; on the other, it pledged to “persist with the dominant role of the public ownership system, give rein to the leading role of the State-owned economy, incessantly strengthen the vitality, strength of control and the influence of the State-owned economy” (Communiqué of the Third Plenum, published in Xinhua, 12 November 2013; author’s translation). One latent logic can be inferred from this recurring paradox: the CPC has no intention to relinquish the public ownership structure, so
painstakingly cultivated by the Mao regime, at this conjuncture. If anything, this structure is reconfigured *through* marketization (e.g. through the public listing of state-owned enterprises and collaborations with TNCs). The identification of this latent logic invariably gives a new twist to prevailing interpretations on Chinese politico-economic evolution: could it not be that the post-1978 Chinese growth ‘miracle’ has occurred because of the regulatory foundations instituted during the Mao era?

The connections between Mao-era spatial logics of socioeconomic regulation and capital accumulation processes in the post-1978 era are largely unexplored despite the emergence of increasingly searching reflections. “To understand China’s post-1978 economy boom”, Gore (1999: 25) contends, “our attention should be directed not only to the marketizing reforms, which have been the focus of most analyses, but also to the institutional context of the boom”. The “institutional context”, this chapter adds, is an *effect* of Mao-era institutions. While GDP-defined economic growth was glacial during the Mao era, new spatial regulatory logics – specifically land nationalization, rural collectivization and the strict control of demographic mobility – produced an integrated *national* economy governed by an increasingly developed state apparatus (ref. Chapters 4 and 5). The geo-economic stability that ensued arguably became the primary condition of possibility for a gradual, state-led integration with the global system of capitalism after 1978.

Just a decade into Deng’s market-oriented reforms, researchers began to document strong signs of path-dependence. “Although China’s post-Mao leaders have shown greater concern with efficiency and with the potential trade-offs between efficiency and such goals as balance and equity”, Lyons (1991: 471) observes, “their continuation of many redistributive policies indicates they have not abandoned regional objectives”. Solinger (1989: 19) presciently noticed how the “most capitalistic of practices have not been sanctioned by the Chinese leadership out of an urge to reorient the economy away from state ownership and toward privatization…The reforms, in the eyes of the politicians, amount to a means of managing the state’s macro-finances, while preserving state/public ownership”. Perhaps most intriguingly,
then Chinese Premier Li Peng argued in his annual 1988 work report that “against conditions in which the old institutional system coexists with the new, we are faced with many new contradictions in the process of reforming the old system while experimenting with and enhancing the new institutions” (Li, 2008: n.p.; author’s translation). Li’s response to these contradictions was to enhance the central government’s control over prices and investment capital (People’s Daily, 14 October 1988). As subsequent research shows, this persistent emphasis on public ownership continues to define the CPC’s regulatory policies today (cf. Goodman, 2004; Lin, 2011; Su, 2012).

In view of these observations, Wei (2011: 23) is arguably correct in pointing out that “China’s reform during the post-Mao era was not a complete departure or an absolute separation from the institutions and policies of the Mao era; it is both the continuity and discontinuity with the immediate past and a complex mingling of past legacies with new policy directions.” It would thus be important to re-assess how institutional discontinuities – primarily, the expansion of the private economy sector, the relaxation of demographic mobility across and beyond the country, and the growing involvement of Chinese firms in transnational capital accumulation – are developed on the back of institutional continuities. This dissertation is an attempt to evaluate this “complex mingling” from a geographical-historical perspective.

To begin, the discussion to follow does not presuppose space and time as inherently separate conceptual categories (cf. Massey, 2005). It focuses, rather, on how specific state strategies impact and are impacted by space and time. This approach circumvents what Jayasuriya (2005) calls “institutional fetishism”, namely the tendency to categorize states in dichotomized terms, such as strong/weak, failed/successful, developmentalist/neoliberal or capitalist/socialist, each category representing ensembles of institutions endowed with a seemingly fixed amount of power to influence development. This either-or comparative approach is problematic, Jayasuriya (2005: 382) explains, because it precludes “a conceptualization of states and their associated strategic capacities as products of social and political relationships both inside and outside the state”. A better understanding of the evolution
of statehood, adds Jayasuriya (2005: 382), would entail posing “the process of state transformation – as opposed to the enumeration of the features of strong and weak states – as the crucial problem of contemporary political science and political economy”.

One important process of state transformation is an intensifying reconfiguration of state space within the broader global system of capitalism. With the onset of the new international division of labor in the late 1970s and the corresponding rise of a neoliberal governance ideology calling for freer flows of capital, national state apparatuses are competing to provide subnational ‘spatial fixes’ for these capital flows. The Chinese state apparatus, as Breslin (2000) shows, has emerged as a main competitor through accentuating subnational differentiation. One key way to understand this dynamic transformation, to follow Peck (2003: 222), is to explore what the state is ‘doing’ in and through space:

It is now broadly accepted that processes of contemporary state restructuring are deeply entangled with transformations in scalar relations. What is at stake here is far more than rescaling for rescaling’s sake, because these forms of scalar restructuring are both a medium and an outcome of changes in the means and ends of state action. Hence the need to move beyond ‘thick descriptions’ of state restructuring, policy reforms and new forms of governance to ask what it is that the state is actually doing – why, where and with what political, social and economic implications. The careful mapping of emergent state forms can, and should, be an important part of this process. (Peck, 2003: 222)

This dissertation is an attempt to map the emergent Chinese state form by making connections between what the state is ‘doing’ in the “nationally strategic new areas” and institutions inherited from earlier regulatory regimes. As summarized in Chapter 1, Chinese state (trans)formation cannot be separated from geographical reconfigurations. The successive series of regulatory projects that produced and sustained the geographies of a new Chinese state after 1949 – i.e. the People’s Republic of China – show the truth of this connection. Through an unprecedented array of policies instituted at different scales, Mao and his government literally transformed the spatial configuration of socioeconomic life from the previously mentioned ‘old society’ in order to reinforce the state formation process (cf. Chapter 1). As will be explained subsequently, it was on the basis of this state spatial configuration that Deng and his successors launched China’s (re)integration with the global system of capitalism. To understand the Chinese economic ‘miracle’, then, it would be necessary to explain how
state institutional reforms were shaped *simultaneously* by the demands of Mao-era institutions and the reconfiguration of geographical boundaries to circumvent, repurpose or transcend these demands. The central objective of this chapter is to develop and present an analytical framework that will facilitate this explanation.

Specifically, as introduced in Chapter 1, the dissertation will delineate the rescaling tendencies and rationale in China during and after the Mao era. It begins with the presupposition that China’s post-1949 politico-economic evolution is dynamically constituted by – and in turn re-constructs – institutions in and through subnational and international locations. This means the Chinese national political economy is a multi-scalar process: the reproduction of the national scale of regulation and capital accumulation involves targeted shifts in regulatory capacities to subnational governments. On one hand, the framework directs attention to the strategic repositioning of contemporary subnational economic-geographies (through institutional reforms and policy experimentation) by the Chinese central government. On the other, it examines how this repositioning imperative is *simultaneously* shaped by shifting developments at the supranational level and the constraints of inherited spatial projects. Focusing attention on how the targeted reconfiguration of regulatory space and Chinese state power co-constitute one another, the conceptual framework presented in this chapter offers a new dimension to explain, in Gore’s (2003: 32) terms, why the “influence of institutional continuity has been particularly strong” (cf. Solinger, 1989; Kueh, 2006; Wei, 2011).

This chapter is divided in four parts. Section 2.2 will examine and review two major research streams on China’s politico-economic transformation. These two streams are, namely, 1) the dichotomous framing of politico-economic development as outcomes of centralization or decentralization; and 2) the temporal periodization of post-Mao economic development as representative of a new ‘transitory’ epoch. The review seeks primarily to demonstrate how static conceptions of space and time preclude a more fluid theorization of the Chinese economic growth ‘miracle’. As introduced in Chapter 1, this ‘miracle’ is more accurately constituted by geographically-targeted policy experimentation and institutional path-
dependency (cf. Chapter 1). The conceptual framework presented in section 2.3 is an attempt to bridge these theoretical gaps. Aimed at offering a historically sensitive mapping, the framework builds on and develops concepts by rescaling scholars, namely Swyngedouw (1996, 1997), Peck (2002, 2003) and Brenner (2004, 2009). Specifically, it calls attention to the political, social and economic implications of state spatial rescaling. In the conclusion, the chapter reflects on the potential contributions of a geographically-sensitive approach to analyze and explain transformations in the Chinese political economy.

2.2 Conceptions of politico-economic change in China: contributions and constraints

2.2.1 The centralization-decentralization binary

The emergence of rapid economic growth in the post-Mao era has been taken as a direct outcome of decentralized governance. This growth occurred in part by new policymaking autonomy given to local governments; in part by the necessity for these governments to raise funds to finance new fiscal responsibilities that were either previously undertaken by the central government or were engendered by new ‘supply-side’ socioeconomic policies; and in part by the competitive pressures generated by national economic integration into the global system of capitalism (see, inter alia, Liu, 1992; Chung, 2000; Su and Yang, 2000; Remick, 2002; He and Wu, 2009; Tsing, 2010). The primary objective of these works is to demonstrate how post-1978 economic reforms changed and are consequently reshaped by the hierarchical regulatory relationship between the Chinese central and provincial governments (to be elaborated shortly). It concludes that post-1978 economic growth occurred primarily because of decentralized governance; that there exists a positive causal relationship between decentralized governance in the post-Mao era and rapid economic growth.

To be sure, these empirical accounts have illuminated the fast-changing Chinese political economy in two major ways. First, they demonstrate cogently how the Chinese central government does not – or, indeed, cannot – function as an omnipotent and omnipresent allocative-cum-redistributive institution. This is because of the inherent difficulty, if not
impossibility, for central planning agencies to gain timely access to information on demand and supply across what has always been a geographically-expansive and socially heterogeneous economy. For this reason, centralized control during the Mao-era could only exist under strict control of personal freedoms (Greenhalgh and Winkler, 2005; Dikötter, 2011; Yang, 2012). And even so, commodity supply never prioritized swift responses to (domestic) consumer demand.

Second, and this is interrelated to the first point, the inherent weakness of the centralized governance regime underscores the necessity to move beyond understanding ‘China’ as one homogeneous politico-economic entity (cf. Peck and Zhang, 2013; Zhang and Peck, 2014). Of particular significance in the post-Mao era, as Shirk (1993) shows, is the increasing differentiation between party and state functions: local bureaucracies increasingly gained autonomy in decision-making and have become the sites of political contestations, while the CPC sets broad guidelines and reserves the right to intervene in the last instance. Arguably as a result of this party-state distinction, Segal and Thun (2001) found that centrally-mandated economic policies often encounter re-interpretations and/or resistances at the subnational scales. Wedemen (2001) similarly explains how the institutional structure of the CPC encourages “strategic disobedience” at local levels. These studies mean central planning directives – if and when a coherent central plan exists, that is – will inevitably generate variegated outcomes.

Over the past two decades, observations of the rise of – or, more accurately, a return to – ‘mountain-stronghold mentalities’ (shantou zhuyi) or ‘economic feudalism’ (jingji zhuhou) within academic and media circles have expanded and, more importantly, are not showing signs of abating. Oi (1992: 126), for instance, predicts “the success of local state corporatism may in the long run force the emergence of something akin to a federal system that more clearly recognizes the rights and power of localities” (see also Oi, 1998). This speculation was not totally falsified. “During the implementation of the central government’s macro adjustment policies (hongguan tiaokong)”, reflects Han Baojiang of the Party School of the Central Committee of the CPC, “an ‘excited phenomenon’ amongst local governments, which shouldn’t
have occurred, became apparent: orders were disobeyed and prohibitions defied (*lingbuxing, jinbuzhi*), there was no adherence to the adjustment discipline, acceptance of orders were only superficial (*yangfengyinwei*).” Such is the rebellious streak at the local levels, Han adds, “people were even joking that, during the course of regional development in China, a weird phenomenon has occurred: the more a local government covertly disagrees with the central government’s macro adjustment policies and behaves more opportunistically, the more the local economy benefits; vice versa” (Interview with *China Economic Weekly*, 2006; author’s translation).

Existing empirical evidence strongly suggests Han’s observation is spot-on. Local transgressions against macro-level policies could be seen clearly in at least three domains where the central government tried to exert more control, namely to reduce 1) investments in pollutive industries (*Economy*, 2011; *Lan et al*, 2012); 2) illegal borrowing through the ‘shadow banking system’ (*Tsai*, 2004; *Li and Hsu*, 2012); and 3) speculative investments in real estate (*Huang and Yang*, 1996, *Guo and Huang*, 2010). Taken together, these apparent disconnects in central-local coordination arguably produced the ten contemporary macro-structural problems outlined in Chapter 1. Recent debates over the superiority of regional developmental approaches further suggests significant bottom-up pressures on national economic integration have (re)surfaced (*Qiu*, 2011; *Qu*, 2012; *Zhang and Peck*, 2014). In light of these developments, claims of subnational economic autonomy are certainly not without credence.

But as *Li and Wu* (2012: 55) argue, “decentralization is not the only characterization of China’s changing central-local relationship since 1978”. At least two main issues are associated with the theorization of decentralization. The first problematic is the temporal decoupling of the centralization-decentralization relationship: the years 1978-1979 have been taken as a temporal watershed that distinguishes the transposition from a centralized era (driven by an all-knowing central state) to one that is decentralized (and indicative of a deepening of market-like rule). “Whereas the central state set the reform process in motion and provided localities with the incentives and the leeway to develop economically”, writes Oi
Montinola et al (1995) view post-Mao reforms as characteristic of a form of “market-preserving federalism”, a strong claim at the time and even today given the unitary political system that emphasizes absolute power in the central government (cf. Shirk, 1993). Along the same vein, as Qian and Weingast (1996) conclude, “the critical component of China’s market-oriented reform, which began in 1979, is decentralization”.

While insightful in many ways, the key issue with these portrayals is the reduction of the Mao era to ‘centralization’. What has since changed is apparently a one-track geographical devolution, namely from a homogeneous economic space integrated by central planning to a variegated economic space developed by ‘entrepreneurial’ local governments. This perspective simultaneously exemplifies a second problematic. Taken as an endogenous phenomenon independent of political centralization, ‘decentralization’ takes on the appearance as a self-contained process that shaped the ‘miraculous’ outcomes of post-1978 economic reforms in/across China. Yet it remains an empirical fact that the CPC wishes to govern China as a unitary and hierarchical political system within which the central government holds ultimate authority over other levels of governments. If decentralized governance has come to dominate the Chinese political economy, does this mean the regulatory capacities of the central government were correspondingly rolled back?

As will be discussed shortly, the contrary might be true. After the socioeconomic reforms generated mixed impacts in the 1980s (which eventually culminated in the unfortunate riots in Beijing’s Tiananmen Square), the Chinese central government in fact worked at developing its own revenue-collection and income-generation capacities to reinforce its politico-economic clout over the subnational (and increasingly supranational) domains (cf. Box 2.1). And as the case studies will show, CPC-appointed Party Secretaries are increasingly taking the lead in defining local-level development, particularly processes involving the elevation of targeted geographies into “nationally strategic” status. While Shirk (1993) observed that reforms has generated an increasingly autonomous bureaucracy, the rescaling of the
“nationally strategic new areas” offers a reminder that power relations between the party and the bureaucracy remain intrinsically uneven: in the name of fulfilling national goals, senior party officials have the wherewithal and the impetus to subsume bureaucratic functions, just like how it was in the Mao-era (Chapters 6 to 9). It could be argued, indeed, that post-Mao reforms have emplaced the Chinese central government in its strongest financial position since the founding of ‘new China’ in 1949.

Quite clearly, then, the geographical expressions of regulatory shifts are more finely-shaded. While there is no doubt that some local governments have put into practice creative socioeconomic policies that produced positive results following the delegation of more administrative power, the causal logic of policy innovations need not be related to decentralization in a linear-sequential fashion (i.e. decision to decentralize → innovative local policies of/for capital accumulation → positive local socioeconomic outcomes). Indeed, this linear-sequential logic is in itself unclear in three ways: 1) it does not explain whether the strong economic growth in some regions is really and/or solely due to local policy innovation; 2) it does not explain why some local governments are more innovative than others; 3) it suggests China’s post-1978 geography of state power is diverging from a top-down mode of regulation that characterizes the pre-1978 era. Bearing these issues in mind, this dissertation is careful to avoid reifying the autonomy of decentralized governance. Rather, it calls for a stronger sensitivity to 1) mapping the connections and divergences of meso-scale activities, e.g. those in extended metropolitan and cross-provincial regions, with policies and practices at the national and provincial scales (cf. Cartier, 2005; Li and Wu, 2012); and 2) exploring whether apparent divergences from the Mao-era served not to destabilize the central government, but to enhance its regulatory capacities.

The framework delineated in this chapter builds on an excellent corrective to the centralization-decentralization binary by Cai and Treisman (2006). They make a point of how key reforms “reshaped China’s economy began in the late 1970s and early 1980s, before any significant decentralization had occurred. In fact, China’s authoritarian centralization helped
speed the geographical spread of policies found to work well.” (Cai and Treisman, 2006: 506). This critique corresponds with Li’s (1997: 49) postulation that the central-provincial relationship in China must be conceptualized as a “non-zero-sum, interactive process of conflicts and compromises, whereby genuine changes to the relationship are made.”

On the basis of these arguments, this dissertation will show how the “interactive process” involves actors situated at different scales, such that changes to central-local relationships are never outcomes of decisions made in one scale. As Li and Wu (2012: 55) demonstrate in an extensive overview of regional development policies implemented from 1949 to 2012, “the emerging regional practices in contemporary China represent another round of changing statehood after governance downscaling to the urban level”; these practices were launched by the central government “in response to the territorial problems such as administrative fragmentation and excessive competition caused by earlier decentralisation and localism”. The subsequent discussion complements these observations by showing how state rescaling is triggered by an ongoing necessity to manage uneven development and central-local relations. In so doing, it illustrates the inherent fragility of national economic integration.

2.2.2 On decentralized socioeconomic regulation and economic-geographical disparities
Placed under further historical scrutiny, it is palpable that decentralized governance across Chinese state space was never a unique post-1978 feature. It was, in a contradictory twist, literally more entrenched in the decade prior to the 1978 reforms. As Donnithorne (1972) observed, the Maoist creation of national ‘self-sufficiency’ was in effect an expression of decentralized governance. In other words, it was an outcome of institutionalized uneven development. Having removed major potential rivals (Peng Dehuai, Liu Shaoqi, Deng Xiaoping and Lin Biao) to his power in the buildup to and during the Cultural Revolution (1966-1968), Mao granted significant autonomy to provincial governments to self-finance developmental projects. In return, he enforced a minimal trade policy between provinces. For almost a full decade prior to the 1978 reforms, then, the ‘Chinese economy’ resembled a customs union.
more than a common market; it was an entity with a common barrier against the global economy, within which free trade did not exist. What developed across Chinese state space was a “cellular economy” that comprised of cell-like, self-sufficient local administrative units (the ‘People’s Communes’ or urban-based enterprises known as gongye danwei). “Self-reliance means that efficient cells do not subsidize the inefficient”, writes Donnithorne (1972: 618), a development that “of course militates against egalitarianism”.

To be sure, the lack of credible statistics during the Mao era precluded meaningful portrayals of income and output. Measurements based on GDP could also be limited because subsistence-oriented production in the communes does not contribute to GDP. It has since become possible, however, to obtain quantitative accounts of economic-geographical inequality in Mao-era China after statistical information on the era was released by the Deng administration. Building on this pool of information, scholars have determined the Mao-era to be characterized by entrenched income inequality between the urban and the rural meso-scales and between provinces. Tsui (1991) discovers inter-provincial income disparities did not narrow between 1952 and 1985. This corresponded to Lyons’ (1991) analysis of output data between 1952 and 1987. Not only did inequality gaps not narrow, Lyon (1991: 499) found “the absolute gaps between richest and poorest widened considerably between the 1950s and the mid-1980s”. For this reason, Lyon (1991: 499) concludes that the Mao era “cannot be viewed as a wholly successful implementation of the egalitarian ideals widely thought to underlie the Chinese model of development”.

The validity of these studies was further reinforced by one other study. Examining real per capita consumption between 1952 and 2000, Kanbur and Zhang (2005) identified sharp growth in interprovincial inequality 1) in the buildup to the Great Leap Forward (1955-1960); 2) after the Cultural Revolution began in 1966; and 3) after the Deng administration made a distinct turn to urban-oriented industrialization in the early 1990s. Perhaps the most intriguing finding of this study was that urban-rural inequality in 2000, which is widely-construed to have been exacerbated by the adoption of market-oriented reforms, reached the same level as that
of 1978 (corroborated by statistics compiled by the author in Figure 5.1 in Chapter 5; cf. Dunford and Li, 2010). If, as Chapter 4 will elaborate, Mao-era urban-rural inequality was characterized by the enforced extraction of surpluses from the rural hinterland to support urban-based industrialization, what could explain the same level of inequality two decades after Deng’s 1978 reforms? Indeed, to follow Chan (2010b), could it not be that the same mode of surplus extraction – the under-pricing of rural labor power through administrative mechanisms – was used to produce the post-Mao economic ‘miracle’?

Apart from the flow of low-cost rural labor power to the industrializing coastal city-regions, research strongly suggests the persistence of regional inequality in post-Mao China is positively correlated to the strengthened financial position of the central government. For Naughton (1992), the failure to ease economic-geographical unevenness was an outcome of the post-Mao restructuring of the SOEs. Yet Tsui (1991) suggests that the unevenness originated from the launch of the Great Leap Forward industrialization program in 1958. The decentralized fiscal governance that accompanied this program saw the share of extra-budgetary revenue, defined as fiscal funds not subject to control or extraction by the central government, double in the 1960s and exhibit “a distinct upward trend in the 1970s and 1980s” (Tsui, 1991: 15). As such, the fiscal reforms in 1994, which further reduced local governments’ access to the budgetary component of fiscal revenue, arguably marked the first concentration of financial power in the central government. Wen Tiejun, a prominent economist in China and a long-time consultant to the CPC, corroborated this point in a recent interview with Nanfang Daily:

What is known as localized development began in 1957, when the Soviet Union stopped giving China aid-related investments. The central government’s budget fell, this budget became a ‘red line’ while local budgets were the ‘blue lines’. Because there was no more money [in Beijing], there was no true centralization of power in China since the 1950s. At the time, all the older comrades knew of this phrase “central finance is sitting on the slides, local finances are soaring through the skies” [zhongyang caizheng zuo huati, difang caizheng zuo feiji]. In the later part of the 1950s, together with the Great Leap Forward, the entire developmental process was driven by local economies; the central government in fact did not possess the capacity to command the localities. Hence we say, for a long time since the 1950s, the local economy took precedence, it was only until the 1994 fiscal reforms that resource redistribution became half-half. (Interview with Nanfang Daily, 23 June 2013, author’s translation)
Huang and Chen’s (2013) intriguing study on fiscal redistribution in China further underscores the point that true economic centralization in China might well be a post-Mao phenomenon. They found that whenever large-scale central financial support was needed, even in the relatively prosperous coastal city-regions like Shanghai and Shenzhen, political connections to and/or the lobbying of the central government became necessary. Inherited from the Mao-era, this process is what the Chinese state terms “specific purpose transfers”\(^2\), or *zhuanxiang caizheng zhuanyi*, a redistributive mechanism that is “typically not rule-based and thus subject to political influence” (Huang and Chen, 2013: 534; ref. also Sheng, 2010).

Of particular significance is the fact that special purpose transfers constitute the largest components of fiscal redistribution from the central government to individual provinces\(^3\). The resultant “anti-equalizing” effects of centralized fiscal redistribution, which saw fiscal funds directed to more developed provinces, effectively reinforces uneven economic-geographical development. As such, the CPC’s macro-level redistributive strategy was arguably as (if not more) important to embedding transnational circulatory capital as supply-side strategies launched by local governments. Wen Tiejun, the economist and CPC consultant, puts the connection between fiscal centralization and the central government’s political power in contemporary perspective:

Right now the central government’s primary mechanism to control the local economies is fiscal transfer payments, through special purpose transfers. Naturally special purpose transfers became the central aspect of the state’s financial institution, it is a major institutional gamble. To a large extent, the so-called regional disparities are caused by disparities in capital allocation [by the state]. (Interview with *Nanfang Daily*, 23 June 2013; author’s translation)

Building on the above observations on decentralized economic governance during the Mao era, it could be argued that while the attempts at producing a national economic geography by the Mao administration were politically successful, these attempts were predicated on and reproduced economic-geographical unevenness. In other words, the projects launched during the Mao-era was solely to facilitate political centralization (ref. Chapter 4); spatial egalitarianism was *never* a policy target.

As summarized in Box 2.1, it was after the central government *curbed* the increasingly
serious side effects of decentralization through fiscal reforms in 1994 that the stage was set for expansive economic growth, not decentralization per se. Indeed, the empirical outcome of the fiscal reforms was arguably to deepen economic-geographical disparities. Of particular significance is the persistence of the ‘cellular economy’ after 1978 (cf. Donnithorne, 1972). In a thorough analysis of statistics (1978-2007) from China’s National Bureau of Statistics (NBS), Villaverde et al (2010: 92) found that inter-provincial economic disparities occurred in the “striking absence of spatial dependence, which confirms a limited economic relationship between provinces.” Attributing this phenomenon to the restrictions on internal trade, Villaverde et al’s (2010) important finding supports Poncet’s (2005) study that not only was China’s domestic market fragmented along provincial lines through the 1990s, this fragmentation in fact became more severe between 1992 and 1997. It also supports an earlier survey by the Development Research Centre of the State Council (2004), which established the widespread existence of local protectionism (cf. Lee, 1998). In the survey, local government officials justified local protectionism as a way to augment local fiscal revenues; this, as Box 2.1 shows, was a direct outcome of the central government’s decision to re-centralize fiscal revenue collection in 1994.

**Box 2.1 The fiscal origins and contemporary implications of bureaucratic entrepreneurialism**

| 1949-1958 | Following the founding of the PRC, a highly centralized fiscal system was instituted; provincial governments remitted their tax revenues to the central government and in turn received budgetary transfers |
| Direct taxation became relatively unimportant after the total nationalization of means of production in 1958; profits from SOEs became the major contributor to state revenues. Taxation was derived from commodities sold by SOEs, the primary ‘market’ was in the rural hinterland; this effectively meant rural residents, who already received very low wages to enable SOEs to make profits (more on this in Chapter 4), were doubly-targeted by the state as sources of income. This was arguably worsened urban-rural disparities in income. |
| *One common form of taxation – income tax – was instituted in 1949 but implemented in practice only in the post-Mao era. |
| In this sense, while the central government was nominally in political control over all provinces, in practice it was very dependent on the provinces’ ability to generate profits through its SOEs. This created opportunities for local governments to define what constituted ‘profits’, and was arguably a key reason for local protectionism and the lack of economic integration between provinces. Persistent lack of integration explains why marked variations in income and... |
output were entrenched through the Mao era.
- This dependence would change following SOE reforms in the late 1980s, with the central government directly taking over the governance of some of the most important SOEs in the country (e.g. CNOOC, China Mobile and all of the top 5 banks).

| 1980s | Fiscal reform introduced some degree of decentralization; provincial authorities had increased powers over the retention and allocation of resources. This decentralization process augmented the provinces’ capacity for planning and developing their local economies.  
In tandem with the devolution of developmental power to local governments (right down to the village level) to control collectively-owned ‘Township and Village Enterprises’ (TVEs), local governments obtained further authority in the management of finance.  
However, problems began to emerge: the move left the central government short of funds, reduced its fiscal control over local authorities, and deepened uneven economic-geographical development. While uneven development was to become a driver of the CPC’s ‘open door policy’ (i.e. integration into transnational circuits of capital flows), it swiftly became a blatant ideological contradiction. |
| 1994 | A tax-sharing scheme (*fenshuizhi*) was introduced to increase the center’s share of total government revenue.  
28 kinds of taxes were divided into three streams: one in which the central government enjoys full access, the other which flow directly to the subnational government, and one in which funds collected would be divided between the center and the localities.  
Under this scheme, value added tax (levied on goods and services and which is the single largest source of Chinese government revenue) was shared between the central government (75%) and local governments (25%). |
| Contemporary implications | The 1994 reforms were credited with returning financial power (and hence developmental authority) from the local level to the central government, which in turn reinstated the central government’s redistributive power  
Yet the redistributive process remains disjointed today (see, e.g. Shen *et al*, 2012): government agencies conduct redistributive programs independent from one another, and some of these programs contradict one another  
Redistribution is also not entirely egalitarian: part of the system involves redistributing taxes in the form of rebates to provinces that pay more taxes, and these provinces are almost always the richer coastal provinces. Ironically, this system creates the perverse scenario in which poorer provinces end up paying more net taxes (when rebates are subtracted) vis-à-vis the richer provinces. For this reason, the existing redistributive system is constitutive of uneven economic-geographical development.  
At the subnational level (particularly the sub-county scale), the reforms arguably impelled local bureaucrats to be more ‘entrepreneurial’, as the reduction of revenues was not concomitant with the reduction of administrative responsibilities (e.g. maintenance of local roads, running of schools, etc.)  
This intensified the importance of “extra-budgetary revenue”, a Mao-era legacy: local governments sought extra-fees on services that are nominally illegal; borrow indirectly from banks or the so-called ‘shadow banking system’ (i.e. curbside lenders that fall outside the purview of the formal regulatory system); engage in property speculation, etc. The need to secure extra-budgetary funds is the primary reason why local governments across China are heavily in debt. |

*Source:* Author’s compilation.
The pressure to generate local economic growth was an additional cited reason for the persistence of local protectionism (cf. Box 2.1). The effects of local protectionism could directly be seen in productivity disparities between export-oriented firms and firms that enjoy local market protection. As Yang and He (2013: 3) cogently demonstrate, “productive firms enjoying local protection are less likely to export” since they enjoy local monopoly advantages; conversely, less productive exporting firms tend to agglomerate to enjoy “exporting spillover effects” that allow them to directly enter international markets. This important empirical contribution underscores the constitutive effects of inherited subnational barriers to trade on the national economic-geographical configuration.

In a further ironic twist, persistent protectionism was another effect of the Chinese central government’s ‘development is the absolute principle’ mandate. With their promotion prospects contingent on GDP growth, local government officials unsurprisingly relied on geopolitical borders to create barriers to market entry and in turn ‘guarantee growth’ (bao zengzhang) (for more on the transfers of administrative personnel around provinces under a nomenklatura personnel system, see Naughton and Yang, 2004; Chien and Gordon, 2008; Xu, 2011). The outcome of this narrow economistic approach to development is now widely-known in China as ‘GDP-ism” (GDP chongbai). Against all these new empirical contributions, it can be inferred that the ‘cellular’ economic-geographical structure and its accompanying protectionist tendencies that characterized Maoist China became a crucial precondition of post-Mao regulatory and fiscal decentralization. The outcome of this change is a qualitative shift in the spatial logic of regulation, a shift now characterized by fierce inter-territorial competition.

To advance the conceptualization of the Chinese economic ‘success story’, then, it would be helpful not to presume the a priori existence of a developmental epoch defined by decentralized governance. Neither would it suffice to characterize epochal change through the lens of ‘neoliberal urbanism’ (cf. He and Wu, 2009), as if economic growth was an outcome of an unproblematic adoption of free-market principles in city-regions. Insofar as the CPC retains a unitary system of governance that prioritizes absolute subservience to the central governance
in the final instance, it has to act proactively as well as opportunistically to ensure systemic stability. The question, then, should be centered on how decentralized economic regulation connects to attempts by the central government to reinforce its political power over the national economic space.

To achieve this, it would be necessary to develop a more incisive explanation that foregrounds institutional path-dependency and inter-scalar relations (ref. section 2.3). As this dissertation will explain, the integration of cellular economic units by the central government during the Mao-era created the preconditions for Deng Xiaoping to launch two parallel paths to reforms in 1978. These paths, which will be described in detail in Chapter 5, were 1) the spatially-selective ‘opening up’ to global circulatory capital in the southeastern Special Economic Zones (SEZs) and 2) the rescaling of economic production in the rural hinterland, within which more than 80% of the national population resided at the time, from the commune level to the level of the individual household (in what remains known as the ‘Household Responsibility System’; ref. Chapter 5).

Through this geographical-historical analysis, the dissertation makes the argument that the crucial transformative phenomenon in the post-Mao era was the convergence of these paths in the second half of the 1990s. As the Chinese state apparatus allowed more privatization of rural industries, finance and assets began to be concentrated in the hands of select private owners, in particular to insiders previously working in the rural industries (Rozelle et al, 2000; Li and Rozelle, 2004). This corresponding search for ‘economic efficiency’ produced rural class polarization, with a growing number of rural workers either laid off or forced to accept wages significantly lower than those offered in the coastal city-regions (cf. So, 2003; Hung, 2008; Andreas, 2010). Higher wages took on new significance with the roll-back of rural social services in the same period. It was in relation to these developments in the rural areas, this dissertation argues, that the conditions were ripe for the surplus rural labor to be absorbed in the coastal city-regions in the 1990s to the present.

But the convergence of these two reform paths was still not sufficient in itself to explain
China’s ‘miraculous’ economic growth. Less discussed in the literature on decentralized governance but no less important is the constitutive role of another Mao-era national institution in the post-1978 urbanization of capital accumulation: the *hukou* (or internal passport) system of population control. As will be elaborated in Chapter 5, the primary reason why this institution remains firmly in place is because it creates ‘flexible’ urban labor markets in the cities, within which peasant migrant workers could be treated (or, more specifically, *priced*) solely as a-social labor power. Without corresponding socio-spatial protection, this huge migrant wave became less rooted to their new urban destinations; yet without corresponding growth in employment opportunities in their rural ‘hometowns’, these migrants could only continue to ‘float’ between city-regions (cf. Solinger, 1999; Chan, 2010a, 2010b).

This floatation serves two distinct functions for state-led capital accumulation across China. First, it eases the financial burden on municipal governments to provide social welfare, which allows these governments to concentrate on developing factors of production necessary to embed capital. Second, it ensures the labor supply is geographically elastic to shifts in effective demand for labor power (which to a large extent is derived demand, given the export-orientation of many labor-intensive industries along the coastal seaboard). The second economic function is especially crucial in times of crisis, because the *hukou* institution leaves open the administrative possibility of mandating migrants to return to their place of household registration. This possibility became reality, as evidenced by the Guangdong provincial government’s response to the 2008 global financial crisis (see Chapter 6). It is thus easy to understand why the seeming powerlessness of the peasant ‘floating population’ in the face of capital is an important component of economic development strategies, just as their subservience during and after the crumbling industrialization efforts so surprised Mao in the 1960s that he exclaimed: “*Hao ah!* [Marvelous!] You whistle and 200 million people come, you wave and they go, without the CPC in power, which party can achieve this?!” (*People’s Daily*, 14 October 2013).

At one level, then, it would be useful to ask how the post-1978 Chinese growth ‘miracle’
was achieved through the reconfiguration of regulatory logics at the meso-level (e.g. the first four SEZs, the gradual introduction of the Household Responsibility System in the rural hinterland, and more recently, fresh socioeconomic reforms in the “nationally strategic new areas”) because of logics instituted by the Mao regime. The growth ‘miracle’, as this dissertation will show, was never caused by a straightforward state ‘retreat’ and its zero-sum corollary, expanded privatization across economic sectors and geographies. It is rather about how the CPC repurposed inherited spatial logics of socioeconomic regulation across Chinese state space *in tandem* with its re-regulation of economic sectors (*pace* Hsueh, 2011). Indeed, the restructuring of SOEs and their roles in specific economic sectors cannot be separated from spatial strategies to engage with transnational circulatory capital in city-regions along the eastern seaboard. In other words, the economic geographies that emerged from state planning engender direct impacts on subsequent restructuring outcomes.

As mentioned previously, however, the urbanization of capital accumulation is never just about the urban; transformations in the vast rural hinterland needed to take place *simultaneously*. This relational entwinement of the rural and urban, in an interesting twist, is a continuation of the Maoist approach to ‘use the rural to support the urban industries’ (*yinong chugong*). Just as Mao confronted myriad problems in the communes because of his chosen industrialization approach (and which in turn curtailed the capacities of urban-based industries to achieve production targets), the shifts in spatial logics of socioeconomic regulation generated a plethora of new problems in both the urban and rural realms (cf. Table 1.1 in Chapter 1; see also Chapters 4 and 5). It is thus more accurate, as Howell (2006: 291), observes, to view Chinese state spatiality as comprising “an increasingly complex tapestry of local state formations, exhibiting overlapping and contradictory features of developmentalism and predation; of relative autonomy and clientelism; of efficiency and inefficiency; of regulation and anarchy; of facilitation of and excessive interference in the private sector.”

Incisive geographical research has significantly enriched knowledge on this “complex tapestry”. McGee *et al*’s (2008) multi-case volume demonstrates how the urbanization process
across China is not only uneven, it is a multi-scaled phenomenon that is best viewed on the blurred and rapidly transforming rural-urban margins. Presenting a grounded, bottom-up examination of differences in land use across Chinese state spatiality, Lin (2010) demonstrates how ‘developing China’ is constituted by conflicting objectives involving different actors. Through a similar comparative study, Tsing (2010) explains how a new urban ‘territorial order’ has now emerged in tension with the national quest for a ‘Harmonious Society’. In research spanning six rural field sites (Shandong, Jiangsu, Hubei, Inner Mongolia, Yunnan and Xinjiang) over 15 years, Webber (2012: 13) shows how there “is no one story of development in rural China. Rather there is a set of stories about specific, concrete changes in particular places and stories about new ways of organizing production which are also different in their particular places.” It is on the back of these geographical contributions that this paper calls for a more dynamic conceptualization of the relationship between socioeconomic regulatory strategies of the Mao era and those implemented by successive regimes to generate the Chinese economic ‘miracle’ as we know it.

2.3 Towards a geographical-historical conceptualization of economic development in China

2.3.1 The challenge of periodization

To recap the preceding discussion, what appear under-theorized in the centralization-decentralization debate are the causal effects of relations and interactions between processes that cut across different places and times. The economic geographies of China are never passive by-products of policies introduced from Beijing, and the critical review in this section underscores the importance of incorporating the spatially-differentiated conditions that made possible economic growth in China. If, to follow Kueh (2006: 32), Mao’s approaches to agricultural and industrial development were part of the “massive material foundation” that “greatly facilitated Deng’s economic reform and opening up strategy”, what is this “material
foundation”? And what role did it play in economic-geographical transformations in the post-Mao era?

To address these questions, this dissertation first takes into account emergent reconfigurations in the economic-geographical structure through exploring the logics of state spatial rescaling in Chongqing and the Pearl River Delta. It documents the consequent changes in inter-scalar relations in and through these reconfigured spaces and delineates the implications of these shifting relations on the Chinese government’s national developmental strategies. Indeed, decentralized governance may have taken on new roles in post-Mao China; it may have contributed significantly to economic growth; but its respective importance within the broader logic of national-scale “macro-adjustments” (hongguan tiaokong) remains under-theorized at this juncture. As the case studies seek to make clear, decentralization at once signifies further changes in logics of socioeconomic regulation as well as the limits to these changes. While it is increasingly necessary to decentralize to respond quickly and flexibly to a dynamic global system of capitalism, the Chinese central government still wishes to retain colossal political power over the national economic-geographical configuration. In this respect, it appears that the regulatory logics of the Mao era remain relevant. What these case studies illustrate, then, is the importance to pause and ponder whether the shifts in socioeconomic regulation to the subnational levels represents an enhancement of centralized governance.

Conventional analyses of China’s politico-economic development portray it as belonging to a new era; as a developmental phase with a new name. While these claims correctly point to the emergence of concrete changes in the post-Mao era, there is also a need to emphasize the connections between these changes and institutions developed in the Mao-era. “Moving from the Mao era’s ‘socialist construction’ to the post-Mao era’s ‘reform and opening’”, Heilmann and Perry (2011: 10) contend, “China has not simply jettisoned its revolutionary past as it ‘transits’ toward a democratic future. Rather, CPC leaders in the post-Mao era have managed to fashion a surprisingly adaptive pattern of authoritarian rule capable so far of withstanding challenges, including grievous and growing social and spatial inequalities, which would surely have undone
less robust or flexible regimes”. For this reason, it would be conceptually simplistic and empirically erroneous to portray a geographically-homogeneous and seemingly post-ideological shift in China’s contemporary capital accumulation regime and modes of social regulation.

First, the Chinese state never gave up being directly involved in the economy since 1949, not even during the so-called ‘rural entrepreneurial decade’ (see Solinger, 1989; Hinton, 1990; Lin, 2010). Indeed, as Huang (1996) shows, the 1994 fiscal reforms recentralized state control over local governments and effectively allowed the CPC to preclude runaway inflation that accompanied ‘post-socialist’ transitions. The rationale of this reinforcement of state intervention is clear: losing the grip on key economic sectors and economic geographies would effectively allow the state apparatus to be controlled by the private capitalist class (cf. Dickson, 2008; Hsueh, 2011). This possibility had to be pre-empted because it directly goes against the Four Cardinal Principles instituted in 1978. These principles are: 1) We must keep to the socialist road; 2) We must uphold the dictatorship of the proletariat; 3) We must uphold the leadership of the Communist Party; 4) We must uphold Marxism-Leninism and Mao Zedong Thought. It is important to note that the third principle is the pivot on which the other three principles rest (for full text of Deng’s speech on the Four Cardinal Principles, see People’s Daily, 30 March 1979). And it is for this reason that the CPC-run state apparatus must always be in a position to determine socio-spatial formations that undergird state-driven capital accumulation.

Second, and this overlaps the point on enduring state economic intervention, the state’s direct involvement in economic development (through its multi-scalar embodiments at the global, national, provincial, county, metropolitan and village enterprises) meant it could not be autonomous from ‘private’ economic agents (which in legal terms apply also to incorporated state-owned enterprises and/or joint ventures). State-capital autonomy, as Evans (1995) has shown, is a fundamental ingredient of developmental states and an ingredient Huang (2008) cites as important for China. Indeed, it was this strong believe in the necessity of absolute state autonomy from private capitalist interests that prompted the Mao administration to launch –
against the advice of Josef Stalin, who appeared more conciliatory towards state-capital collaborations in the late 1940s – the ‘socialist high tide’ of 1958 (Li, 2006; see also Chapter 4). This said, state autonomy from capital, now expressed in the form of SOEs following efforts to ‘separate politics from state corporations’ (zhengqi fenkai), could not be engendered so long as the CPC views state involvement as integral rather than an obstacle to economic growth.

In fact, what appears to be an expanding ‘private sector’ in China today is effectively subsumed within the broader regulatory structure that includes SOEs. In an unprecedented and highly-controversial step in 2001, the CPC co-opted domestic private capitalists into the party by allowing them membership. With this step, what were nominally taken to mean ‘private’ economic activities took on a new undertone: the actualization of private interests is acceptable insofar as it does not contradict the CPC’s Four Cardinal Principles (cf. Tsai, 2007; Dickson, 2008; Zhang and Ong, 2008). In other words, these principles have engendered a causal influence on socioeconomic regulation in China. Viewed in relation to this institutional configuration to sustain state economic dominance, the assertions of epochal shifts read more like a lobbying attempt for China to become more like ‘the others’ because, presumably, that is the way history should be.

Historical analysis is not about predictions, however. As Kohli (2004: 12) observes, the literature on state-directed development has a “nearly exclusive” focus on “appropriate policy choices”, a focus that “is incomplete, even misleading”. While there is a logic to evaluating whether “policy choices” are “appropriate”, Kohli (2004 :12) argues that “more important is the varying political and institutional conditions in which economic policies are chosen and pursued.” A more advanced conceptualization of state involvement, for Kohli (2004), entails a critical sensitivity to the historical patterns of state authority, distinguished by state characteristics such as shifting leadership goals; the degree of centralization of public authority; the downward penetration of public authority; the political organization of the mobilized political society; the scope of state intervention in the economy; and the quality of the economic bureaucracy. This dissertation concurs with and builds on Kohli’s (2004) observations.
Specifically, in view of Kohli’s (2004) emphasis on the historical conditions that make policies possible, the periodization of Chinese economic development could offer a conceptual advance only through examining post-Mao policy experimentation in relation to their respective interactions with institutions inherited from the Mao-era. Shining analytical light on these interactions would clarify whether it is sufficient to focus solely on post-1978 reforms as the contextual backdrop in the theorization of contemporary Chinese state spatiality. In turn, it opens up the opportunity to question whether the developmental period after 1978 constitutes an era of evolution that is distinct from what came before. To begin, it would be useful to consider the parameters that define one temporal frame from another. As Jessop (2001: 284) explains, periodization is predicated on the existence of two entwined processes, relative continuity and relative discontinuity:

Relative continuity does not presuppose the stasis of identical self-repetition – only that relevant changes do not disrupt the structural coherence typical of this period (for example, the widening and deepening of mass production in the Atlantic Fordist accumulation regime). Nor does relative discontinuity presuppose random variation and hence a total absence of structure – only that relevant changes disrupt the previous structural coherence (for example, the hypermobility of global financial capital versus the Atlantic Fordist mode of regulation). This disruption may itself have a distinctive logic (for example, neo-liberal structural adjustment programmes imposed on developmental states) and/or serve as an experimental transitional phase with different forces struggling over future patterns of structural coherence (for example, new accumulation strategies after the ‘Asian crisis’).

Two key parameters are key to Jessop’s (2001: 284) formulation, namely “relevant changes” and “structural coherence”. Of these parameters, “structural coherence” is an extension of Harvey’s (1985) concept of “structured coherence”. By Harvey’s formulation, capital seeks to accelerate the time it takes labor to convert commodities into more commodities and profits. This process occurs in and through geographical transformation: places must be (re)produced to enable capital to circulate in a coordinated way through the concentration of infrastructure, transport connections, housing for labor power, factories and consumer markets. Harvey (1996) would later term such geographies “permanances”, namely the provisional stabilization of investments and processes in place. Once stabilization is achieved, a particular place would enhance the ability of capital to extract value from labor power and offer the necessary conditions to accelerate the exchange of goods from plants to final markets.
The contradiction of the production of national-scale structured coherence is it tends to generate conditions that undermine the “permanences” that constitute this coherence. Firms elsewhere (and even governments in other places) could try to outperform the dominant geographies of accumulation, or firms in the ‘permanent’ geographies could seek to leave these geographies for places that could potentially generate more surpluses. Any sort of coherence that emerges, therefore, could be quite short-lived. And it is this point that Jessop (2001) seeks to develop in relation to periodization: a distinct period can be discerned if the dominant scale of accumulation – which, in the case of North America and western Europe in the post-WWII period, was the “nation-state” – has remained stable in spite of “disruptions” (cf. Peck, 2001; Jessop, 2002; Brenner, 2004). The crucial variable thus rests in the ability of “relevant changes” to “disrupt” the structural coherence of the dominant scale of accumulation. Policymakers of structurally coherent scales could – or, arguably, have to – make changes in order to retain that coherence. Where changes could no longer ensure coherence, a period of “relative discontinuity” sets in, often triggering economic-geographical reconfiguration.

For this reason, this dissertation will not construe relevant changes and relative discontinuity as antithetical processes. The aim, rather, is to ascertain how they correspond mutually. Jessop’s formulation helps tighten the empirical focus in the study: some changes, such as the fiscal reforms of 1994, are “relevant” because they ensure structural coherence, namely the ability of the Chinese central government to fortify its control of the national scale. Other changes, such as the national designation of SEZs in 1980 and of Hengqin, Qianhai and Liangjiang New Areas in the past 5 years, are “relevant” because they triggered structural disruptions that in turn gave way to the emergence of new, if necessarily rudimentary, regulatory structures and accumulation regimes. The “relevance” of any institutional change, expressed through contested processes of state rescaling, is to be assessed in relation to the “coherence” of the preexisting regulatory structure, expressed through the ability of the Chinese central government to dictate the flows and allocations of finance, production and labor power at the national scale (cf. Chapters 1, 4 and 5).
Viewed in relation to the problems associated with research on path-dependency (see discussion in Chapter 1), this emphasis on “relevant changes” does not presuppose that the established paths will be disrupted correspondingly. Rather, change could be a precondition of continuity. To ascertain the “relevance” of institutional reforms, it would be necessary to first avoid the assumption that these reforms automatically lead to structural transformations. Avoiding the premature conclusion that tensions associated with inherited logics of socioeconomic regulation – known officially in CPC parlance as “historically-inherited problems” (lishi yiliu wenti) – indicate potential structural collapse, the subsequent chapters seek to illustrate geographically why experimental reforms (and the respective underlying assumptions that produced these reforms) enabled the Chinese state apparatus to keep functioning in spite of these tensions (ref. Tables 2.2 and 2.3). Whether changes occur, as the next section will elaborate, is inevitably a politicized process that can never be predicted.

It would be useful, at this juncture, to consider whether it is possible to derive alternative explanatory variables if periodization of both state form and economic system are avoided a priori. At one level, it may not say much by presupposing everything as deeply-rooted in history; that change is never dramatic; and that spatial differences further complicate theories of socioeconomic development in China. Not making these presuppositions leaves open a gap, however, when contemporary empirical facts are taken into account. Despite its self-declared structural constraints (ref. Table 1.1, Chapter 1), the Chinese party-state apparatus was a coherent structure at the time of research. It was also clear that inherited institutions – like the 1958 hukou system of demographic control and the state-controlled financial system – continued to function in spite of longstanding calls for reforms. When institutional reforms were launched, they were often geographically-delimited, which further undermines any effort to periodize either the state form or the economic system.

In this regard, the purpose of theory is to ascertain the principal drivers of politico-economic change and explain how (or whether) these drivers contribute to the preexisting structural coherence (ref. Harvey, 1985; Jessop, 2001). If the Chinese economic growth
‘miracle’ occurred in spite or even because of the structural problems delineated in Chapter 1, specific institutions and policymakers must have enabled this outcome. A framework that could demonstrate the extent to which these policies and actors contribute to the retention of structural coherence would thus add more precision to the theorization of politico-economic transformation in China since the Mao era.

2.3.2 State rescaling: reproducing structural coherence?

Building on Heilmann and Perry’s (2011) call to understand forces that reproduce the “robust” or “flexible” national regulatory regime in China, this dissertation will demonstrate how the reproduction of structural coherence is facilitated through regular reconfigurations of the spatial logics of socioeconomic regulation. The overarching research objective is to assess whether the state spatial structure institutionalized by the Mao administration over three decades was ruptured or reinforced by course-changing policy experimentation initiated by Deng and his successors, namely Jiang Zemin, Hu Jintao and, in the current conjuncture, Xi Jinping.

Specifically, the dissertation examines the co-constitutive relationship between successive rounds of policy experimentation and structural renewal since the CPC took political power in 1949 (ref. section 1.2, Chapter 1). It shows why Chinese politico-economic evolution is unlike any other (post-communist) ‘transition’. Indeed, in Jessop’s (2001) parlance, if the post-1949 Chinese regulatory structure remains characterized by ‘coherence’ (and this ‘structure’ include the spatial configuration of socioeconomic activities), the post-1978 changes triggered by Deng and his successors would be “relevant” insofar as they ensured and extended the stability of this “structure”. The implication of this “relevance” is clear: ‘liberalization’ reforms, expressed through increasingly variegated experimentation in targeted geographies, have thus far been a function of a ‘transition’ towards an as-yet-determined end-state. A new question emerges in turn: are the socioeconomic reforms introduced in 1978 so as to reinforce Chinese state power? A more dynamic geographical-historical conceptualization of economic development in China may offer some plausible answers.
Following Brenner’s (2004: 78-79) definition, the dissertation conceives “state spatiality” as at once an expression of the officially-recognized boundaries of state territory and of the variegated spatial aspects of the state’s socioeconomic involvement within its officially-recognized territory. These variegations are expressed 1) directly through experimental policies that recalibrate regulatory relations between the national, subnational and/or supranational governments, a process defined in Chapter 1 as ‘rescaling’; and/or 2) indirectly through propagandistic or macroeconomic policies. Although this definition is derived from empirical work conducted in Europe, its emphasis on the connection between the state apparatus and its inherently uneven regulatory geographies can potentially enrich scholarship on the post-1949 (re)production of the Chinese political economy. Going by this definition, the respective identification, selection and emergence of specific territories as ‘nationally strategic’ spaces are tentative processes. The situation is further complicated by the fact that post-Mao Chinese state spatiality is a mosaic of economic-geographical experimentation launched at different moments. For this reason, the significance of these “new areas” can only be evaluated from a retrospective rather than a predictive vantage point.

As illustrated in the critical review in section 2.3.1, the transformations of Chinese state spatiality cannot be presupposed as determined by a linear movement from centralization to decentralization. Neither is it about a movement from spatial egalitarianism, characterized by relative income and output equality, to a highly unequal state spatiality (ref. also Chapter 4). Decision-making in Chinese policymaking circles, observe Heilmann and Perry (2011), are not as top-down and rigid as it appears. On the contrary, the preferred modus operandi is to effect “adaptive governance” through a type of “guerrilla-styled” decision-making that emphasizes continuous policy experimentation. This “guerrilla” style originated from the CPC’s sporadic and opportunistic military strategy in its “long revolution” through the 1930s and 1940s: the “wartime base areas’ formula of encouraging decentralized initiative within the framework of centralized political authority proved highly effective when redirected to the economic modernization objectives of Mao’s successors” (Heilmann and Perry, 2011: 7). Building on this observation,
this dissertation complicates received binary conceptualizations of politico-economic development in China by underscoring how socioeconomic development is driven by changing spatial logics of regulation. It will proceed to distill the rescaling rationale of the tentative policy experimentation in Hengqin, Qianhai and Liangjiang New Areas by probing their respective significance vis-à-vis the broader geographical-historical context within which they emerge (see Chapters 6 to 9). The overall objective is to demonstrate how the rescaling of state spatiality is not tantamount to total politico-economic devolution – rescaling is about changing regulatory relations between governments at different levels of the spatial hierarchy.

Peck’s (1998) conceptualization of ‘geographies of governance’ offers a very helpful launching point. In his analysis of the proliferation of Training and Enterprise Councils (TECs) and Local Enterprise Councils (LECs) across the UK, Peck (1998: 14) contends this phenomena are not stand-alone local ‘variants’; “spatial variability under the TEC regime can be connected systematically to the ways in which the discursively constituted national model of TECs is reconciled with a pre-existing and co-evolving institutional terrain.” (Peck, 1998: 14). Central to this approach is the framing of local economic-geographical reconfigurations as “complex creations of an interplay between national regulation and local governance” (Peck, 1998: 5). In subsequent work on new “scalar rule regimes” in the former Keynesian welfare states of North America and western Europe, Peck (2002: 333, emphasis-in-original) similarly calls for “a careful theorization of the relationship between local institutional changes and those extralocal rule regimes within which they are embedded – and through which they are partially constituted”. State rescaling, in other words, is not a one-way process: in the Chinese context, it is as much about decentralized governance as it is about recalibrating the macro regulatory capacities of the central government.

New policies, as Peck’s works demonstrate, interact dynamically with inherited regulatory formations. “[T]he present scalar location of a given regulatory process is neither natural nor inevitable”, writes Peck (2002: 340), “but instead reflects an outcome of past political conflicts and compromises”. In this regard, the existence of a particular scale of
politico-economic organization such as ‘the city’, ‘the province’ or ‘the national’ is not to be taken for granted; the production of one primary scale of socioeconomic regulation is at once an outcome and potential trigger of new rescaling tendencies (Jonas, 1994; Herod, 2011; cf. Chapter 1). Extending this approach to theorizing politico-economic development in China, Peck and Zhang (2013: 388) emphasize the need to foreground concurrent tensions between economic phenomena occurring within market(izing) realms and their ‘others’, namely redistributive mechanisms from a predetermined center (the state) and reciprocal arrangements between social actors:

What if, instead of positioning the principle of market coordination in a sequential and historical relationship with social regulation and institutional embeddedness, in a temporal reading of the double-movement metaphor (as if marketization and socialization only see-saw against one another through time), this was replaced with a simultaneous and geographical conception of the contradictory coexistence of the integrative principles of market exchange, reciprocity and redistribution within fundamentally heterogeneous economies? This conception, in which variegated capitalisms necessarily (co)exist with their others, in contradictory and often crisis-prone hybrids and in webs of mutually constitutive relations, might enable a critical but theoretically ‘positive’ understanding of China’s development path. (Peck and Zhang, 2013: 388; emphases-in-original)

This emphasis on the constitutive interactions between actors positioned within different scales develops Rawski’s (1995: 1155) observation that post-Mao reforms are driven by a “combination” of central and local initiatives:

The mix of top-down initiative and bottom-up reaction is itself a variable element within the reform mechanism. In the 1980s, when the Centre lacked clear objectives, initiative gravitated to lower levels. In the 1990s, a new elite consensus favouring market outcomes stimulated a volley of centrally-directed reforms affecting taxation, banking and corporate governance. China offers a shifting array of forces in which many policy changes, such as the partial commercialization of bank lending and the reduction of budgetary appropriations for industrial research, probably represent a combination of bottom-up response and independent central initiative.

Through the case studies of the ‘new areas’ mentioned above, the dissertation aims to delineate the constitutive aspects of this “variable element”. As Brenner (2009: 42-43) puts it, the “institutional and spatial coherence” of a scale “can be grasped only with reference to their distinctive roles and positions within interscalar hierarchies.” Ascertaining the relations of place would thereby entail tracing the constitutive extra-local processes of an apparently localized phenomenon (e.g. how the restructuring of the hukou institution in Chongqing is integral to calculations in Beijing, or the launch of cross-border credit between Hong Kong and Qianhai as
a three-way process involving the central, provincial, and Special Administrative Region governments).

Relations are also traced back in time, which calls into question the path-dependency of the phenomenon under study. Sensitive to the contributions and constraints of the path-dependency paradigm (ref. discussion in Chapter 1), this dissertation takes state rescaling as at once a reaction to inherited institutions and an attempt to transform these institutions. In so doing, it circumvents the a priori prediction of institutional continuity, and leaves open-ended the outcome of policy experimentation in the targeted geographies. As will be discussed in further detail in Chapter 3, this research approach more specifically overlaps Burawoy’s (2009: 49-50) ‘extended case method’: the objective is not to assess the cases in isolation, but to trace “the source of small differences to external forces. This might be called the integrative or vertical approach. Here the purpose of the comparison is to causally connect the cases. Instead of reducing cases to instances of a general law, we make each case work through its connection to other cases.”

As Chapter 1 has introduced, a major objective of this “integrative” research approach is to use the conclusions derived from the contemporary cases as platforms to evaluate the constitutive roles of inherited institutions (ref. Figure 1.1, Chapter 1). Through connecting the geographical-historical account in Chapters 4 and 5 to the present, the goal is to trace the spatial logics of socioeconomic regulation through time to determine whether these logics have changed in the “nationally strategic new areas”. Indeed, it is one thing to eschew portraying seemingly self-contained processes as mechanistically succeeding one another over time (ref. review in section 2.2); it is another to engage in a targeted exploration of historically-embedded developmental logics that could potentially lead to a deeper understanding of the institutional continuity and changes that engendered China’s restructuring present.

To proceed with a more accurate mapping of changes in the primary regulatory scales of a particular time period, the research was mindful of and sought to overcome three conventional state-centric assumptions of state spatiality. These assumptions are, namely,
Spatial fetishism, methodological territorialism, and methodological nationalism. Spatial fetishism is defined in this dissertation as the notion that space is distinct and functions autonomously from social, economic and political processes. In contrast to spatial reification, which regards space as a thing with a materiality and life of its own, spatial fetishism treats space as a pre-given entity that needs no separate theorization. For instance, a foundational assumption of macroeconomic theory – that economic processes could be reduced to ‘aggregate demand and supply’ – does not question why it is possible ‘aggregate’ to the national scale. That the intrinsic instability of state space could problematize the aggregating process over time is never questioned; indeed, once the malleability of state space is considered, the assumption ‘all things being equal’ will not stand. This fetishistic approach reduces locational patterns to simple cost-benefit calculations or some scientific laws that are neither connected to nor capable of explaining unequal power relations that are spatially (re)configured. In short, it is not concerned about how uneven geographies regulate and reproduce social, political and economic phenomena at the national scale.

Geographers have argued that, contrary to this two-dimensional view of space, the inherent instability of socio-spatial formations generates dynamic tensions with state apparatuses (Swyngedouw, 1997; Peck, 2002; Brenner, 2004; Massey, 2005; Harvey, 2008). For this reason, while state space should never be taken as capable of generating causal influences autonomously, its configuration at a particular time could direct or confine socioeconomic processes to the sub-national and/or supra-national scales. As the subsequent chapters will explain, ‘China’ as we know it today did not exist six decades ago: the CPC that produced and tried to keep in existence a national economic space through specific strategies prior to 1949, and then sought to mold this space to its (Stalinistic) image through three major policies between the late 1950s and the late 1970s (Chapter 4).

Yet these projects generated their own contradictions, in turn impelling the CPC to launch new rounds of policy experimentation in selected locations. The first round, launched in 1978, was to fragment domestic state space into institutionally-distinct geographies for
integration with the global system of capitalism. At the same time, widespread changes to regulatory relations within the rural hinterland were instituted (Chapter 5). Building on the first round of fragmentation, the second round ‘scaled up’ this integration through subjecting the entire national economic space to the rules of the World Trade Organization (WTO). With increased income inequality and vulnerability to global economic crises since WTO accession, the third and most recent round of rescaling is the institution of new regulatory capacities to intra-urban “nationally strategic new areas” (ref. Chapters 1 and 5).

This dynamic, post-1949 state spatial evolution in turn illustrates a second problematic assumption: methodological territorialism. Across much of the social sciences, Brenner (2004) observes, social processes are assumed to occur within spatially-delimited ‘containers’, the most privileged of which remains the nation-state. While national borders generate constitutive effects, they are also inherently porous. In view of this porosity, it becomes necessary not to privilege specific scales when seeking to understand social phenomena, but to understand how and why these phenomena are scaled:

[S]cale cannot be the 'object' of political-economic analysis, for scales exist only insofar as key political-economic processes are scale-differentiated. From this point of view, it is more appropriate to speak of scaled political economies – that is, of the scaling and rescaling of distinctive political-economic processes – rather than of a political economy of scale per se. (Brenner, 2009: 48-49)

One goal of the subsequent analysis is to understand how the Chinese political economy has been geographically configured prior to and after its founding in 1949. That ‘China’ as we know it today is an outcome of regular and in some ways cumulative state rescaling rather than a normative national ‘container’ illustrates methodological nationalism as the third problematic assumption. This assumption is difficult to overcome, to be sure, given that social scientific studies predominantly collate, present and compare data in relation to the national level. While subnational information is often available, they are presented as subsets of national data, which underscores the constitutive effect of national borders on statistical quantification.

To demonstrate how the national scale is always in the making, it would be necessary to focus on key actors – specifically their decisions and discourses – involved in the scaling
process. Juxtaposing the discourses of actors positioned at different levels of the spatial hierarchy could open new ways to understand rescaling rationales that quantitative analysis could not offer (more on this in the methodological discussion in Chapter 3). Indeed, while the Chinese political economy comprises the site of analysis, actors seeking to negotiate their place-specific socioeconomic interests in relation to the national scale proactively work to reconfigure its geographical form. As Bayırbağ (2013: 1142) explains, rescaling is more accurately an effect of the interaction of “rival hegemonic projects”, which makes it important to illustrate the “struggle” between different political actors:

State rescaling is not the product of a structural tension between central government policies and inevitable local responses. It is a conflict-ridden process where rival hegemonic projects clash as they strive to (re)define the meaning of ‘nationhood’ and ‘national interest’, which determine the (future) spatiality of exclusion from/inclusion into national public policies. Then, a pro-decentralization agenda promoted by a (counter-)hegemonic project can be interpreted as a tactical move in the history of this struggle. Therefore, decentralization reforms cannot be readily associated with a particular type of a political project, or a particular historical period such as that of neoliberalism.

Bayırbağ’s (2013) dual emphases on the historical and political irreducibility of rescaling offers a more reflexive interpretation of state spatial rescaling vis-à-vis Brenner’s (2004) strong ‘end of history’–like conceptualization of rescaling in/of western Europe. For Brenner (2004: 16), “it is no longer capital that is to be molded into the (territorially integrated) geography of state space, but state space that is to be molded into the (territorially differentiated) geography of capital”. For Bayırbağ (2013: 1142), however, rescaling does not mean state space is inevitably “molded” into the “geography of capital”: it is more important to ascertain how different interest groups or actors define “the national interest” through spatial reconfiguration.

As the rescaling of Liangjiang New Area demonstrates, the Chongqing government played an instrumental role in ensuring whole supply chains could be ‘molded’ into the changing geographies of state space. It capitalized on the Chinese central government’s political commitment to fulfill Deng Xiaoping’s 1988 call for spatial egalitarianism and proactively brought together different actors in an unprecedented act of “strategic coupling” (see Chapter 7). The proactive developmental approach was in turn discursively presented as integral to the national economic restructuring agenda after the 2008 global financial crisis. At
another level, however, the active personal involvements of then Chongqing Party Secretary, Bo Xilai, corresponds with Shirk’s (1993) observation that leaders in subnational governments seek promotion to the senior echelons of power in Beijing through generating new reform initiatives. Who the actors are, what policy agendas they seek to push across, and how they do it is thereby a crucial focal point for researching the rationale of state spatial rescaling.

The research of state rescaling in China in this dissertation thus does not assume a \textit{a priori} that urban-oriented rescaling is inevitably and narrowly mapped onto the “geography of capital”. Focusing on the multi-faceted aspect of rescaling would, in the terms of Macleod and Jones (2007: 1186), allow for an understanding of how – or whether – territories are structured through “active political struggle and discursive imaginings”. This approach sidesteps in turn the aforementioned limitations associated with methodological territorialism: a particular regulatory scale is always open to politicization and competing imaginaries (Jones and Jessop, 2010; Sum and Jessop, 2013). In so doing, it became possible to establish the causes and effects of flows between scales and, to follow Harrison’s (2013: 55) call, contribute to the state rescaling literature by explaining how and why specific regulatory relations are “dominant, emerging or residual” (cf. Harrison, 2010).

Table 2.1 summarizes how the subsequent empirical analysis would move away from the three aforementioned state-centric assumptions. As illustrated in Chapter 1, the scaling of state space in China has always been a \textit{politcized} process, involving a range of actors who aimed to enhance their interests (political and/or economic) through the spatially-targeted policy implementations. As Peck (2002: 337) puts it, scalar fixes are “political constructions that are subject to periodic contestation; they are not transcendentally determined”. During the Mao era, the scaling emphasis was to produce a national economic space under centralized political control (see Chapter 4). Reforms introduced in the post-Mao era sought to retain this integrated national space through a series of meso-level rescaling that avoided the total devolution of control to provincial and/or urban governments (Chapter 5). The contemporary rescaling of “nationally strategic new areas” illustrates an emergent regulatory mode termed
“decentralization as centralization”. Here, decentralization through spatial targeting allows the Chinese central government to make use of actually-existing uneven economic conditions to preempt or respond to crises generated by the global system of capitalism. Its objective is to reinforce the CPC’s politico-economic power at the subnational, national and global scales (Chapters 6 to 8).

### Table 2.1 Refinement of state-centric assumptions through the Chinese cases

<table>
<thead>
<tr>
<th>Aspatial assumptions</th>
<th>Details</th>
<th>A process-based refinement through an analysis of Chinese state spatiality</th>
<th>Chapters</th>
</tr>
</thead>
</table>
| Spatial fetishism    | • State space is timeless and static  
                      • State territory is unaffected by changes in the regulatory structure or broader shifts in the global system of capitalism | • Chinese state spatiality is always in the making; the current spatiality was non-existent pre-1949, and its existence is an outcome of Maoist state spatial projects  
                      • Current attempts at reflexive centralization are to reinforce this Maoist politico-geographic legacy while facilitating global economic integration | 4 – Active production of state spatiality in the Mao era  
                      5 – Reconfiguring post-Mao state spatiality |
| Methodological Territorial-ism | • State territoriality is viewed as an unchanging, fixed or permanent aspect of modern statehood  
                      • The geography of state space is reduced to its territorial dimensions | • Chinese state spatiality is regularly reconfigured at different scales  
                      • Contrary to conventional portrayals, the Mao-era was characterized by entrenched uneven economic-geographical development  
                      • Post-Mao decentralized governance was and remains a dynamic extension of centralization, not an end in itself  
                      • Spatial projects and strategies are layered on one another as well as constitute one another simultaneously  
                      • The ability of the Chinese state to produce polymorphic economic geographies within a broader global system of capitalism is the basis of contemporary Chinese statehood | 2 & 10 – Explains how the CPC remains a key actor in the configuration of spatial formations |
| Methodological nationalism | • The national scale is viewed, ontologically, as the primary and natural scale of political power and capital accumulation | • Even during the geo-economically insulated Mao-era, the national scale was determined by processes occurring at the provincial/commune and international scales  
                      • The apparent primacy of the national scale of accumulation (in relation to the global economy) is constituted by dynamic, subnational repositioning | 6 & 7 – Guangdong government’s push for rescaling in response to national & global economic conditions  
                      8 & 9 – Rescaling in Chongqing as strategic repositioning in the global economy |

Source: Adapted from Brenner (2004: 74)
2.4 Conclusion

Building on the critical review of spatially- and temporally-static portrayals of economic development in China, this chapter has presented the analytical parameters used to explain the connection between changing spatial logics of socioeconomic regulation and rapid economic expansion in China. The framework takes this seemingly ‘miraculous’ growth – which is taken to be ‘miraculous’ only from 1978 – as a succession of regulatory layers extending way back into the Mao-era. Without making the assumption that successive spatial projects and/or strategies in the post-Mao era unsettled the structural coherence of the Chinese state apparatus (see, e.g., such assumptions in Pei, 2006; Huang, 2008; Coase and Wang, 2012), this framework leaves open the theoretical possibility that these spatial reconfigurations could have reinforced and reconstituted inherited institutions. Beneath the appearance of national structural coherence, it directs attention to discontinuities occurring at different geographical scales (e.g. the ‘socialist high tide’ of 1958, US military aggression in Southeast Asia during the 1960s, Mao’s death in 1976, the sudden contraction of export markets following the 2008 sub-prime mortgage crisis, the ‘ladder step’ approach to industrialization that privileged the coastal city-regions, etc.). In view of Mao’s ironic message to Poul Hartling that efforts at building a socialist state used and reproduced the methods of the “old society”, the subsequent chapters ask whether these discontinuities have undermined the prevailing structural coherence of the party-state apparatus, or, perhaps counter-intuitively, whether they have enabled the geographical reconfiguration that is fundamental to the CPC’s existence.

Taking a geographical-historical approach to complicate the centralization-decentralization debate and the claims to epochal shift, this dissertation is primarily concerned with 1) establishing the socioeconomic rationale of establishing Chinese ‘nationally-strategic new areas’ as strategic sites to reform institutions inherited from previous layers of restructuring; and 2) documenting and explaining the reasons why specific inherited institutions from the Mao-era persisted to the present in spite of their inherent constraints. Beginning in and
returning to geographically-variegated vantage points across contemporary Chinese state space (ref. section 1.3.2), the approach offers an important analytical point of departure, through which more theoretically-generative questions about politico-economic evolution could be raised (cf. Chapter 1). It takes existing policy experimentation in China as a spatio-temporal problem and asks: ‘how do these locationally-specific experimental institutions interact with past institutional outcomes to generate new developmental pathways?’ The outcome is the development of an elastic, non-programmatic framework that leaves open-ended the range of outcomes generated by contemporary socio-spatial reconfigurations (ref. Figure 1.1, Chapter 1).

Yet it must be added that, because the predominant template to analyze and evaluate shifts in state spatiality is primarily based on western European and North American cases, this template in itself constitutes a challenge to using concepts of state rescaling and path dependency to theorize change in the Chinese political economy. To follow Burawoy (2009), theories are always challenged when they are applied to different cases – and the experimental approach to institutional change in China critically engaged some assumptions used in the analyses of western Europe. Specifically, the selection of specific geographies for institutional reforms was not predetermined as a sequential attempt that moves away from a previously existing state of spatial homogeneity. Rather, as the review in this chapter has already shown, Mao-era state spatiality was far from homogeneous and egalitarian.

As the subsequent chapters will elaborate, what appeared as a coherent national economic geography under Mao was ‘scaled up’ and then held together tenuously by three interrelated policies that radically transformed the organization of socioeconomic life across China (Chapter 4). As such, Mao-era China could hardly be characterized as a form of spatial egalitarianism prior to urban-oriented rescaling in the 1990s. Inheriting this integrated but highly uneven state space, Deng launched a new round of experimental policies; the intention, however, is not to achieve the “glory” that comes from being “rich” – the overarching goal is to reproduce the stability of this integrated space (Chapter 5). What needs theorizing, then, is how
policy experimentation is entwined with state rescaling to produce a power-preserving model for the CPC. This will be the focus for the remaining chapters of this dissertation.

Notes

1 That these three commodities, deemed 'fictitious' by Karl Marx, were placed under public ownership is in itself symbolic and will be discussed in detail in Chapters 5 and 6.
2 "Special purpose transfers", Huang and Chen (2013: 538) explain, are "commonly used by the central government to provide incentives for local governments to undertake specific policies, programs or activities favored by the central government." From 2007 data, for instance, it could be seen that while many poor provinces like Tibet, Guangxi and Jilin have benefited from these transfers, a high amount also goes to Shanghai, one of the richest province-level areas in China. Through enhancing the development of Shanghai, coastal-interior unevenness gets reproduced, if not reinforced.
3 The cities of Beijing, Chongqing, Shanghai and Tianjin are classified as province-level administrative units. Under this classification, these cities are treated at the same level as provinces like Guangdong and Fujian.
3.1 Introduction

Prior to embarking on fieldwork for this dissertation, it was assumed that this was one fixed and seemingly taken for granted component of research. The primary emphasis, so it seemed at the time, was on the duration of data collection in situ (i.e. in the targeted locations of research). Indeed, it was not uncommon to hear people say "I took X amount of time’ for fieldwork, now I’ve returned to enter a ‘writing stage’”. It was on that basis that the data collection was originally planned: first, it would be to visit Beijing for archival work and to access potential contacts, followed by subsequent visits to the targeted field sites of Chongqing and the Pearl River Delta. But the plan quickly changed. After the Beijing visit in January and February 2012, it appeared accessing senior levels of policymaking circles would be difficult, if not impossible. While respondents offered referrals, they were not able to arrange for meetings with any senior government official with knowledge of state rescaling. Then came the opportunity to join a visiting group of researchers to Chongqing in March to April 2012, which could potentially open up what was thought to be closed doors. And finally, in the period leading to the visit to Hengqin and Qianhai in January 2013, more discoveries were made in the intermittent period back in Vancouver through following up on information gained from the earlier two on-site visits. Reflecting on these fluid moments of entry and re-entry into the targeted research sites, the interrelated notions of ‘the field’ and ‘fieldwork’ took on new meanings.

As the pool of information took shape through these experiences, the perception of a ‘field’ that seemingly existed ‘out there’ – i.e. in the Pearl River Delta and Chongqing where “nationally strategic new areas” were instituted – became at once more expansive and less defined. Specifically, the preconception of fieldwork as a linear process involving an extended, one-off plunge into ‘the field’ evolved into a more multi-dimensional view of the data collection process in which theory mediates interpretation of data and generates demand for new
information. As Massey (2003: 74) correctly puts it, what counts as ‘fieldwork’ is only one moment out of different moments along the research process, and the issue for methodological reflection is “how we think about the relation between these moments – crudely put, between going out and obtaining your ‘material’/‘data’ and what you do with it when you get back”. Along a similar vein, Yeung (2003) argues that new economic-geographical research involves the flexible selection of “complementary” methods rather than rely on the use of a formalistic “scientific” methodology. A more holistic notion of “research practice”, as Raghuram and Strange (2001) argue in a study of economic institutions, takes into account the evolution of the research topic as more information is brought into contact with the preexisting conceptual framework. Quite clearly, fieldwork is not just about seeking answers; it involves generating new questions at the same time.

This chapter traces and explains the relations between different moments in research undertaken for this dissertation. To construct and then write about an understanding of state rescaling in China, the research followed what Peck (2005: 132) terms the “dirty hands” approach to socioeconomic research, namely the generation of “empirically rich accounts of concrete and socially-situated processes” in which “history is taken seriously” and through which to explain economic worlds that are “characteristically messy”. This approach was an open-ended process of building on preexisting questions by adding new content, following which new questions were formed. It was important to have both direct experience in the ‘field’ (informal discussions with locals, interviewing actors with experience of the phenomena under study, archival study, visits to museums etc.) and regular reflections on how these experiences ‘speak to’ the concepts used in the study. When encountering something ‘new’ – and this is relative in temporal terms, as the ‘newness’ of the encounter could involve archival study of historical phenomena – it was important to question how the new content connected with and (potentially) revises pre-established concepts. The research process was thus a personal learning process. At times the data-concept connection involved changing the concepts, at times it meant discarding the new information as irrelevant. What counted as ‘fieldwork’, then,
was a virtuous spiral of reflection and action; of constantly reflecting on whether understanding of state rescaling has broadened, and questioning whether there exist new ways to expand understanding.

There are three parts to this chapter. Section 3.2 provides an overview of the research methods. Research is generated by curiosity, but curiosity alone does not ensure the methods are ‘right’. The section evaluates the strengths and weaknesses of the ‘mixed methods’ approach used to derive empirical information. Section 3.3 then reflects on the process of data collection, specifically who were contacted and spoken to, how the interaction occurred and played out, and the ways in which first-hand information was supplemented. The concluding section addresses potential gaps pertaining to the overall pool of data collected, and some possible ways to bridge these gaps in future research.

3.2 Overview of research methods

Detailed collection of empirical materials was conducted prior to, during and after the embarkation of three field visits to China, namely between January and February 2012 (to Beijing); in March and April 2012 (to Chongqing); and in January 2013 (to Hengqin, Qianhai and Macau, with a short visit in Hong Kong to collect materials and conduct an interview). In between the site visits, time was spent analyzing the information collected from earlier rounds, seeking help from friends in China to source for additional information (especially statistics, which could be easily sent by email). This mediation period is important given the methods chosen are inherently political and shape concrete realities, as Law (2004) puts it. The opportunity to critically reflect and improve on methods used in one trip led to the collection of new data in the subsequent trip that re-defined the relevance and reliability of existing data. In short, the spread of field visits into three segments and sensitivity to the importance of research methods to influence reality led to a nuanced and multi-layered data collection process.

To understand the “messy worlds” of socioeconomic transformations, to borrow Peck’s (2005: 132) terms, mixed methods were used. Given the difficulties of deriving information from
singular sources (e.g. a panel of statistical data), especially in a Chinese context where information from official sources are often scripted and/or censored, it was decided on the outset that the triangulation of empirical information was a practical necessity in research on Chinese state rescaling, policy experimentation and path-dependency. Following Elwood (2010: 95), this dissertation defines mixed methods as “those that rely upon multiple types of data, modes of analysis, or ways of knowing, but may use these elements in a variety of ways in relationship to one another, for multiple intellectual and analytical purposes.” Both qualitative and quantitative information were collected and pieced together into a coherent narrative. Qualitative data offers deep and at times personal insights into socioeconomic phenomena, while statistical data reveal correlations between trends. Placed in relation to each other, each set of data has the potential to validate or refute the other. This is arguably the most powerful advantage of ‘mixing’ data derived from different methods: it allows the researcher to probe further the accuracy of the data coming from one source (e.g. the CPC); and, in the event inconsistencies persist, determine if new information is needed to explain these inconsistencies.

To cite an example from the on-site data collection in the Pearl River Delta, interviews with academics who previously consulted for the municipal governments in this extended metropolitan region revealed the active role of Wang Yang, the former Guangdong Party Secretary and now one of the four vice-Premiers of China, in effecting the transference of “nationally strategic” regulatory capacities to Hengqin and Qianhai. In and of itself, this triggered further research on policy documents and official discourses to validate this information. However, further research on the statistics of RMB deposits in Hong Kong revealed an interesting trend: prior to the rescaling, interest in holding RMB seemed to have waned, but the trend increased after the announcement of new financial reform policies in the rescaled zones. This important link to Hong Kong led to more extensive research on discourses and policy documents released by the Hong Kong Monetary Authority. The expanded investigation revealed a phenomenon that was arguably more-than-coincidental: the
announcement of new financial reforms in Hengqin and Qianhai took place on the same day – 25 July 2012 – the Hong Kong government announced more expanded quotas for RMB holdings. In retrospect, the statistical information from Hong Kong became an important research springboard that contributed to the conceptualization of rescaling in the Pearl River Delta as a multi-scalar process (see Chapter 6). This would not have been possible if only a singular research method was adopted.

After a preliminary round of data evaluation, it became apparent that the qualitative approach would become the predominant method to collect and analyze data, while quantitative materials would complement rather than form the core analytical basis. To follow McDowell (2010: 158), the aim of qualitative research is to “probe an issue in depth: the purpose is to explore and understand actions within specific settings, to examine human relationships and discover as much as possible about why people feel or act in the ways they do.” The primary reason for this preference was due to the dissertation’s emphasis on why state rescaling and policy experimentation took place across China (cf. Chapter 1). To identify and explain the tendencies and rationale of active spatial configuration in the contemporary juncture and ascertain the extent of path dependency, it is necessary to identify data that could assist in forming a coherent narrative of change. In this regard, speeches and/or interviews given by key causal actors and policy documents could more incisively reveal why specific actors like Wang Yang and Bo Xilai pushed for state rescaling than analyses of statistical significance or software-based modeling.

A key reason why quantitative analyses/modeling is not preferred is because of the concern with accuracy: in as much as they reveal, quantitative data obscure. This point was made explicitly by Li Keqiang in 2007, then governor of Liaoning province and now Chinese Premier, in a conversation with US Ambassador Clark Randt. As Randt recounts:

GDP figures are ‘man-made’ and therefore unreliable, Li said. When evaluating Liaoning’s economy, he focuses on three figures: 1) electricity consumption, which was up 10 percent in Liaoning last year; 2) volume of rail cargo, which is fairly accurate because fees are charged for each unit of weight; and 3) amount of loans disbursed, which also tends to be accurate given the interest fees charged. By looking at these three figures, Li said he can measure with relative accuracy the speed of economic growth. All other figures, especially GDP statistics, are ‘for
In an interesting development, the Chinese government did not issue any denial to Randt’s statement. More importantly, Li’s point is subsequently supported by claims made elsewhere. In May 2012, Junheng Li, the founder of New York-based venture capital firm JL Warren, went public with a personal reflection on the use of quantitative data in China:

I learned the most important lesson about doing business in China: Numbers don’t mean much. Most companies have three books: a real one for internal use, one for the tax bureau and one for the CEO’s wife (and, in some cases, a fourth for his mistress)...China’s hybrid economy depends more heavily on government policy than most, and can count on the cushion of intervention from on high. Once a growth target is set by the top, the central government then allocates GDP growth from the top down. The state gives provinces a target, each province mandates to the regions, regions to departments, and departments to corporations, including state-owned enterprises and private companies. Despite the admirable economic growth that China has delivered, at its core the reward and punishment system hasn’t changed in stride. Those who comply are rewarded and those who raise uncomfortable subjects are punished; a cut in pay or a cork in one’s career advancement are to be expected if one can’t provide the euphoria package. (Bloomberg, 23 May 2012)

This inherent numerical inaccuracy, Li adds, is in fact fundamental to structural stability:

There is a Chinese saying usually applied to the legal system: While the top has its policies, the bottom has its counterpolicies [i.e. shangyou zhengce, xiayou duice]. In economics, if the bottom can’t meet the mandate, they cook the books and send the data back up the ranks. Everyone’s happy – for a while. It’s as if Mao’s proposed farming methods could actually produce the amount of crops that were being reported – if the powers that be must be pleased, so be it. As long as the upper levels of governance maintain their authority and lower levels of governance don’t take any heat for a missed target, then everyone can be happy. (Ibid.)

To be sure, there are moments when quantitative data is important and is presented to support arguments. These data will be used to demonstrate the ‘price scissors effect’ (ref. Chapter 4); to describe changes in migration flows in the post-Mao era, urban-rural income disparities, etc. (ref. Chapter 5); to show changes in fixed capital investment in Guangdong and Chongqing (ref. Chapters 6 to 9); and to show trends of monetary flows between Hong Kong/Macau and mainland China (ref. Chapter 7). Indeed, the most justifiable uses of these data is not to try to ascertain accuracy but to demonstrate trajectories of change over time. For instance, if the measurements and their attendant methodological flaws of income and inequality stay relatively unchanged over a long period, then the trends might be meaningful even if the absolute values recorded are not. The fact that these trends are released by state agencies allows the researcher to use the state’s own statistics to complicate discursive claims by actors.
representing the state. Quantitative data thus complements the analyses of textual information in informing the analysis of changing spatial logics of socioeconomic regulation across China.

Two vignettes on the analysis of quantitative data from the Pearl River Delta would explicate why qualitative analysis of state rescaling and policy experimentation was preferred. First, while published statistics by state agencies would reveal increased fixed capital investments in Hengqin, they do not reveal the financiers of the investment. By extension, it would not be possible to explain, on the basis of these statistics, why specific financiers and not others funded the investments. The interviews with the academics/consultants in Shenzhen led to information on the financiers (predominantly state-owned enterprises and national banks controlled by the central government). Further checks were then conducted, and this shaped the conclusion reached at the end of the case analysis: state rescaling benefits provincial governments in the short term because they inflate GDP figures, yet this GDP embellishment is only possible through central governmental support (via the centrally-controlled SOEs and financial institutions). At the macro level, this explains why so many provincial governments are lobbying the central government to reconfigure their administrative territories into “nationally strategic new areas”.

Second, as presented in Chapter 6, the official employment figures in Guangdong province were positive even after the global financial crisis struck in 2008. Nationally, the published unemployment rate was under 10%. Yet the Chinese Premier Wen Jiabao acknowledged in 2010 that 200 million people were unemployed, which translated to a 14.5% unemployment rate relative to the total population and 20% relative to the working population. Relative to official accounts from Guangdong, Wen’s speech opened up new questions on 1) the veracity of the national unemployment rate; 2) why employment continued to grow in Guangdong while the rest of the country was experiencing a staggering unemployment rate exceeding 20%; and 3) why other provinces fared so much worse than Guangdong in unemployment rates given that the majority of migrant workers were (and remain) based in Guangdong (or, more specifically, the Pearl River Delta where the majority of industrial
activities take place; ref. Chapters 5 and 6). These new questions led to a tentative conclusion: as the most attractive destination for migrant workers across the country, Guangdong successfully 'relocated' unwanted migrant workers after the 2008 crisis. As such, unemployment that should be concentrated in situ was 'exported' to the other provinces. This 'exportation' strongly suggests why 200 million people (a substantial number who would have been working in Guangdong) were unemployed across China while the official employment rates remained positive in Guangdong during the same period. Without Wen's speech, it would have been impossible to arrive at this conclusion (which, to be sure, invites scholars to make more substantive verifications in future studies).

Taken together, these observations further reinforce the importance of incorporating qualitative data to complement (if not contradict) statistical information. If fudging numbers can produce a regulatory apparatus within which, in Junheng Li’s terms, “everyone can be happy”, the dissertation presumes something else must have been done to ensure the tensions associated with growth are eased or erased. Given that speech is not intrinsically more believable than numbers, the dissertation took the approach to build on and verify information given by interviewees (ref section 3.3). Content derived from published interviews was also cross-checked (where possible) or used with clear qualifications. Overall, the juxtaposition of speeches and comments from key state actors and the detailed textual analysis of policy changes since 1949 offered a useful avenue through which to theorize why spatial logics of socioeconomic regulation changed in China.

3.3 Interactions with informants: critical reflections

Given that the three field visits involved interactions with as many as 80 individuals on various occasions (e.g. lunches and dinner hosted by local governments, chats with guides at visitor centers of the New Areas), it was difficult to define the total number of ‘interviews’. Strictly speaking, semi-structured interviews were conducted with 31 academics and policymakers during the three field visits, while interactions with other individuals that yielded insights into
developmental processes in the new areas were written into field notes. Where possible, attempts were made on-site to follow up on suggestions given by interviewees or from informal interactions (e.g. sourcing for statistics, old maps and policy documents). Back in Vancouver, renewed efforts were made to contact the individuals for subsequent information and suggestions. In this respect, as mentioned in section 3.1, fieldwork continued beyond the ‘field’.

The active engagement with interviewees within and beyond the field corresponds with Barnes’ (2001: 557) observation that theorizing is “a social activity like any other”. The opportunity to be hosted at the Chinese Academy of Sciences (CAS) in Beijing offered a tremendous platform from which enrolment into domestic academic networks became possible. During the first day of the CAS visit, there was an opportunity to meet a group of five urban planners over lunch. Appointments were then made to interview these planners. Following these interviews, four referrals to researchers based in two other prominent universities in the city were obtained. At the time the aim was to understand more about the ongoing experimental policies in targeted geographies, and the ability to critically engage planners with experience working for different local governments across the country generated many stimulating ideas. This was then followed by an extensive on-site search for secondary materials. While these interviews did not generate direct insights into the rationale of producing the “nationally strategic new areas”, they were helpful in the making clear the importance of Mao-era policies in the present (e.g. the People’s Communes, the hukou institution). References were also given in the interviews to writings by politically-influential Chinese scholars like Wen Tiejun, Hu Angang and Wu Jinglian on the logics of post-Mao reforms. These referrals proved particularly important because attempts to interview these scholars were unsuccessful.

Perhaps the most fruitful aspect of the Beijing visit was the ability to join a CAS-arranged visit to Chongqing in March 2012. This pre-arranged visit offered access to many locations that reflect the ongoing reforms in Chongqing, such as the new tax-free logistics zone, factories in Liangjiang New Area, public housing construction sites, the land transfers
office, etc. These visits provided the opportunity to speak directly to three major government officials and to attend a local-government hosted discussion involving 6 governmental representatives. Participation was also arranged for four other discussions: one session involved three planners on land transfers; another was led by four academics based in a university in the core urban area; and the final a presentation-cum-discussion led by a state agency. Accessing this network offered invaluable opportunities for establishing contacts, after which interviews with 7 planners and academics in Chongqing were established. These interviews offered access to some planning documents, the history of Chongqing’s economy, information on the build-up to the designation of Liangjiang New Area, and tensions generated by the experimental reforms. This information strongly aided the analysis of state rescaling and path-dependency in Chongqing, to be discussed in Chapters 8 and 9.

The data collection process in Shenzhen and Zhuhai (where the new areas of Qianhai and Hengqin are located, respectively) involved more spontaneity. In Shenzhen, the opportunity to interview four academics (two through referrals) proved especially helpful, but in an indirect manner: they offered recommendations to relevant documents and what they knew about the context of the policy changes rather than put on record their personal insights on the policymaking process. In Hengqin, an encounter with a local construction employee led to a motorcycle tour of the island and a lunch meeting with many of his friends in the construction industry. This tour opened access to the exhibition hall, where conversations with three employees were established, and the main village on Hengqin. Inside the village, more historical accounts of the development of the area became clearer. The community centre representative offered a broad overview of developmental changes, and how further development could affect the area. Over in Macau, separated from Hengqin by a narrow waterway, two interviews were conducted with legal consultants and another with an academic specializing in public policy. One legal consultant made a referral to a venture capitalist based in Hong Kong; an interview was subsequently arranged in order to gain a sense of private sector views of the financial reforms. The interview offered some interesting perspectives, and
highlighted a key limitation of this dissertation, that is the incorporation of more voices from the private sector on the experimental reforms. This lacuna was addressed – if only partly – by sourcing for and including into the analysis comments on the reforms by Hong Kong- and Macau-based bankers in major newspapers like *South China Morning Post, The Macau Daily* and *WenWeiPo*.

Looking back on the interview process, one reason why fieldwork never ends in the field site is due to the lack of adequate information from the informants. At one level, this reflected a practical constraint: visa restrictions and a small financial budget limited the length of time in the fieldsite (and hence the number of potential interviewees). At another level, this was attributable to a general tendency of interviewees – state officials in particular – to avoid answering questions directly or offer in-depth personal views. When asked why specific policies were implemented and/or who were mainly involved in the decision-making process, the general refrain from actors representing the state would be ‘all information on our work can be seen online, you can visit our webpage to find out more’. This refrain was discouraging at times, as government websites normally lists policy documents without discussing in detail why these were launched. How could the dissertation’s objective of establishing rationale be attained if it was not possible to hear from the ‘horse’s mouth’? Glasmeier’s (2007) account on policy analysis offered a particularly helpful reminder:

Confiming intent is done using open-ended interviews with key informants who were policy analysts, agency personnel and politicians themselves. Newspaper articles can corroborate findings from the administrative record. The bottom line is that historical understanding requires archival research coupled with personal interviews with individuals engaged in the policy debates of specific times...Such analysis highlights the intended, and by implication allows for the interpretation of unintended, consequences of public policy. (Glasmeier, 2007: 218-219).

Establishing “intent” is a multi-dimensional process, as Glasmeier’s experience indicates. On reflection, this is not only true in the context of this dissertation research, it underscores the need to be flexible and resilient in dealing with difficult dimensions as conditions develop ‘on the ground’. The closure of one potential source of information – information from actors that represent the state – only made it imperative to open other doors. Vis-à-vis the tight-lipped state-linked actors, it soon became clear that scholars or business consultants were keen to
talk and offer assistance. For one respondent, “discussing these issues with you is interesting because my days in the office are often very boring” (Interview, Shenzhen, January 2013). More generally, however, the sense was that the scholars and consultants were keen on and forthright during the engagement because of recommendations from a few key contacts or because they were keen to engage a fellow scholar from a foreign institution. It was not unusual for the conversations to turn to what life in UBC is like or how the North American academic system works. Offering this information was a modest ‘reward’ in exchange for the respondents’ rich knowledge of the circuits of policy deliberation. Indeed, insights from these respondents proved very helpful in identifying causal relations (see discussion on the field experience in Hengqin and Qianhai above). Often, these insights offered new opportunities to deepen the contextualization of published state discourses, question the feasibility of some experimental policies, and identify patterns and logics pertaining to state rescaling in China.

To enable this re-contextualization, the collection of published materials became a very important moment of the research process. Major policy documents (e.g. the 12th 5-Year Plan; Plan for Guangdong-Macau-Hong Kong; Great Western Development plan; etc.) and published interviews/speeches by state actors such as Mao Zedong, Zhou Enlai, Liu Shaoqi, Bo Yibo and Deng Xiaoping were collected. Some of these materials were bought in China; others scanned from the libraries and state agencies. During the intermittent periods in Vancouver, requests were also made of friends in China to scan and email documents. Selected materials were then translated and included in the analysis. Many of these documents, mostly published in Chinese and which have not been discussed by scholars outside China, offered a concrete background knowledge of the historical contexts of the ‘new areas’ and the reasons why these areas were given national designations. Policy analysis was complemented by an analysis of statistical and qualitative information published in the media. Close to 800 articles published in various media in China, Hong Kong, Macau and Taiwan were collated. These articles provided a significant source of information, including statistical information on updated capital flows into the ‘new areas’ as well as major firms that have moved into the areas. A substantial amount of this
information was not reported in the statistical publications of the Chinese government, but nonetheless helped to highlight both the causes and effects of differentiated institutionalization.

The personal conversations were especially beneficial when it came to the analysis of historically sensitive policies (particularly those pertaining to life in the People’s Communes, the logics of the Great Leap Forward, etc.): the intention was to gain perspectives from within China that complement research already conducted on these historical events, and many interviewees offered tremendous help in pointing out local articles, books and archival sources. The key question asked of these respondents – predominantly the planners – was the difference between the communal organization of socioeconomic life in the Mao era and the regulatory reconfiguration in the post-Mao era. But often more work needed to be done to collect published information that could build on what these respondents said. For instance, one interviewee claimed that the commune system had its merits vis-à-vis contemporary rural life. This generated new questions on how market reforms negatively affected the organization of socioeconomic life in the rural hinterland. The questions contributed eventually to a key argument made in Chapter 5, that is rural polarization and coastal-cum urban-bias in the allocation of capital converged in the 1990s to generated the range of socioeconomic challenges presented in Table 1.1.

A key source of published information was interpretations of policies given by senior policymakers (e.g. leaders of major state-owned enterprises, city mayors, and senior academics who have participated in policymaking as consultants) in major Chinese newspapers like 21st Century Business Herald, Nanfang Dushibao, Chongqing Ribao and People’s Daily. Given the practical challenges involved in directly accessing these senior figures, their views from published sources were taken to be those of the state. These sources were especially worth analyzing given the CPC’s extreme caution with the public use of words. In fact, Mao Zedong was acutely aware of the significance of language that he advised Wang Hongwen, a close aide, in a private 1974 conversation to choose his words carefully:
From now on, you must pay a lot of attention when you speak, do not express a stance easily. The most important ingredient of political leadership is not to let others know what you intend to do or say in your next move. If others can predict all your actions, where would there be the art of political leadership? Regarding words that we have yet to utter, we are their masters; regarding those words already uttered, we are their slaves. (Documented by Shi, 1998, Chapter 30; author’s translation).

By Mao’s logic, words “already uttered” by CPC cadres represent a “stance” of the Party, and it is this stance that was triangulated with other empirical sources in the analysis. The reason for using these cadres’ published discourse is straightforward: their comments offer insights into official rationale for rescaling and allow this rationale to be evaluated through the incorporation of other information. Senior political actors had given numerous interviews on state rescaling and policy experimentation to local magazines and newspapers, and some have even published articles in Chinese-language academic journals. These sources constituted the primary base from which to examine the intentions of their respective projects. Given that they were major ‘causal agents’ (i.e. actors with the power to effect change and/or implement policies) involved in the development of policies, their views were taken as a stream of discourse against which alternative interpretations could be juxtaposed.

A surprising outcome of this juxtaposition was the identification of different viewpoints amongst what is often perceived to be a homogeneous group of state-linked actors. These differences are important findings in themselves for two reasons. First, they foreground the difficulties of effecting institutional change within a broader structure that encourages and rewards bureaucratic entrepreneurialism. Once placed in geographically-specific institutional positions, actors have to generate opportunities for income growth in order to be recognized for promotion rise in the administrative hierarchy (cf. Chien and Gordon, 2008; Chien, 2010; Xu, 2011). How these interests complement or contradict interests of other political actors thus became in itself an important point of empirical focus. Second, these different viewpoints indicate how top-level decisionmaking in the Chinese state apparatus is – in the post-Mao era, at least – an open-ended process. This open-endedness is related to the bureaucratic entrepreneurialism mentioned above: while officials and domestic private capitalists in all provinces have to mouth their commitment to national developmental goals (e.g. Common
Affluence, Harmonious Society, etc.), the necessity to be innovative to secure economic growth meant they have to work hard at lobbying the central government, in the hope of securing the (territorial) privilege to ‘move first, experiment first’ with policies. This indicates the intrinsic malleability of political authoritarianism: actors positioned in different parts of the institutional hierarchy, or even external to the hierarchy itself, could shape developmental agendas. In this respect, state rescaling reflects and reproduces this malleability; its occurrence was never pre-ordained, its outcome never predetermined.

3.4 Conclusion

Fieldwork, this chapter has argued, is a continuous process of engaging with the site of study. This was especially the case in the course of research for this dissertation, through which the biggest methodological challenge was to triangulate scattered empirical materials and assemble them into a coherent and theoretically-informed narrative. As mentioned in section 3.1, the opportunity to conduct multiple field visits made it easier to collect materials on site: it was often during the intermittent periods of fieldwork, when the collected data was collated, that ‘missing’ information was identified. The possibility to make subsequent visits thus offered fresh opportunities to plug the ‘data gap’. To be sure, there are no clear boundaries – if there are boundaries at all – to this research field. This ties in to the broader notion that ‘fieldwork’ is in itself a dynamic process that is not simply defined by and delimited to ‘flying in, flying out’. Rather, there are always new data to explore and analyze; the challenge is to determine how much information would suffice to render a cogent narrative. In itself this was a major lesson of the research process.

Having arrived at a clearer understanding of the state rescaling process through fieldwork, it would be useful and important to state the limitations of the chosen analytical methods. First, the goal of the historical analysis is not to attempt the (impossible) task of cataloguing and explaining the totality of relations extending from the Mao-era to the post-Mao present. Historical exploration can enrapture and entrap at the same time: there is just so much
to explore, so many materials in the archives or libraries in China that are of potential theoretical significance. The challenge is to derive the right conceptual lenses to launch into a targeted historical exploration, otherwise the massive pool of historical information could easily encumber the research process. How, indeed, does one start and stop looking?

This answer to this question crystallized once the research design was established (ref. Figure 1.1, Chapter 1). The past can be most fruitfully interpreted and re-interrogated from the experimental policies of the present. And because what constitutes the ‘present’ always changes as time progresses, the scope for further re-interrogation and conceptual revision remains. This generates at once a contribution and a constraint – a constraint emerges insofar as the conceptual constructs in this dissertation will inevitably be subject to revision as more empirical cases (e.g. further studies of other “nationally strategic new areas such as Binhai, Lanzhou and Zhoushan) are brought into the mix, and yet it is a contribution because specific developments in the present (e.g. the drives to reform the hukou institution and the financial structure) have allowed the past to be seen in a different light. It has, from the vantage point of this dissertation, presented the spatial logics of socioeconomic regulation of the Mao-era as a distinct foundation of the Chinese economic growth ‘miracle’.

Second, the dissertation does not claim to define the full rationale of state rescaling from the two chosen case studies. As discussed earlier, an important caveat in research on state rescaling and policy experimentation reside in the fact that some primary policymakers (i.e. causal actors) are largely off-limit. For this reason, it is difficult to understand directly what went on inside the CPC boardrooms where recent decisions were made. The closest one can attain a deeper understanding of the rationale of state spatial rescaling would be through a) policy discourse analysis; b) analysis of interviews given by the primary policymakers; and c) interviews of people who have come into contact with these policy actors. Because of the intimate connections between academic institutions and state organs (academics routinely consult for the CPC), many potential interviewees are located in academic institutions. From personal experience, access to these interviewees was not only more straightforward, these
interviewees were generally keen to engage and offered excellent follow-on leads (either through recommendations to other interviewees or referrals to print materials in local libraries). Yet the inability of this research to access all key actors mean the rationale presented in this dissertation always requires subsequent refinement through the inclusion of more case studies.

The issue of access notwithstanding, it would be useful to list the limitations of investigating changes in China as they are happening now. Many processes are rapidly emerging as they are disappearing in China, which inevitably renders partial the process of understanding contemporary policy experimentation across the country. While the focus on the emerging “nationwide strategic new areas” in itself offered six specific platforms from which to understand potential transformations, practical reasons meant there was still a need to choose from these platforms. The Liangjiang, Hengqin and Qianhai cases were chosen for three reasons. First, these locations were rescaled just as the global financial crisis unfolded, which indicated how rescaling does not simply boil down to domestic economic calculations. Second, the widely publicized involvement of the provincial-level governments in Chongqing and Guangdong in driving rescaling strongly suggested no coherent “national strategy” of development was in place in the central government when the global financial crisis struck. Third, by the time of writing in 2013-2014, there were sufficient documents and statistics from which new emerging patterns could be mapped. This gave the two chosen city-regions an advantage over the two other ‘new areas’, namely Zhoushan and Lanzhou. For these reasons, the two chosen research sites offered opportune platforms to examine the role of state rescaling as a medium and outcome of the reconfiguration of Chinese state power. In turn, as Chapter 10 will discuss in detail, they opened up new questions on the changes in spatial logics of socioeconomic regulation, questions that invite fresh rounds of geographical-historical analyses.
Notes

1 It is important to add that statistical inaccuracy is not an ‘exceptional’ China problem. Almost mirroring Law’s (2004) argument that methods are inherently political, Wade (2004) calls for a ‘critical political economy of statistics’; for all statistics everywhere have to be read with an awareness of how they are shaped by power, purpose, and interest.

2 From the author’s review of published Mao sources in Mandarin, this note was not selected as part of the CPC’s voluminous collections of Mao’s speeches. Drawing from Shi’s (1998) research into former Premier Zhou Enlai’s interactions with Mao, it could be the first time this perspective on language is translated into English.
Chapter 4
Becoming ‘new China’, becoming the newest and most beautiful painting

Apart from other characteristics, China’s 600 million people have two outstanding characteristics: poor and blank [yiqiong erbai]. These [characteristics] seem bad, but they are actually good. Being poor leads to thoughts of change, [poor people] want to work, want revolution. A blank paper is without burden, on which it can be written the newest and most beautiful words, on which it can be drawn the newest and most beautiful painting. (Mao Zedong, April 1958; see Mao, 1992: 177–178; author’s translation).

4.1. Introduction

National-scale economic-geographical integration has been central, in both concrete and imaginary terms, to the state-building strategies of the CPC since it took power in 1949. Implemented in tandem with political nationalism, the consolidation of national economic space was and remains fundamental to China’s position(ing) within the global economy. At the macro level, the ‘China’ the CPC inherited in 1949 looked very different from the ‘China’ prior to World War II (WWII). Even today, the precise boundaries of ‘China’ are still not definitive today. Luo Yuan, a member of the Chinese People’s Political Consultative Conference (CPPCC), puts the situation in perspective: “China is the only permanent member of the UN Security Council that has not achieved territorial integrity...We need to think more on how to preserve national integrity” (China Daily, 4 March 2010).

Yet, as Chapter 2 has explained, the evolution of Chinese state spatiality is not circumscribed to the pursuit of a fixed territorial extent. Within the country, socioeconomic development has been constituted by and in turn re-shaped uneven geographies of socioeconomic regulation prior to, during, and after the Mao-era. The CPC’s predominant challenge in the 1940s and early 1950s was to construct and consolidate a new state space constituted by formerly disparate political economies. As Meisner (1999: 62) observes, this challenge “had to be undertaken in conditions of extreme economic backwardness, in a country which possessed only the most primitive system of communications and transportation, in a land where the persistence of strong traditional localistic and regional loyalties had retarded the development of a modern national consciousness and where the dominance of largely
precapitalist forms of economic life provided only the most fragile basis for national integration.”

This chapter is about how the CPC reconfigured this “most fragile basis for national integration”. It specifically focuses on three policies that drastically changed the spatial logics of socioeconomic regulation in a newly formed Chinese state space. As the review in Chapter 2 has shown, Mao-era economic development was characterized by entrenched interprovincial income and output inequality. Furthermore, researchers have increasingly connected this inequality to the Mao government’s decentralized approach to governing economic production (ref. discussion on ‘cellular economy’ in Chapter 2). Building on these findings, this chapter develops Whyte’s (2010) argument that, contrary to claims of ‘spatial egalitarianism’ and relative income equality in Mao-era China, the approach to building ‘socialism’ was fundamentally predicated on state-driven uneven development. Understanding the production of uneven development in Mao-era China is thus important for theorizing the proliferation of “nationally strategic new areas” in recent years: it underscores the constitutive role of instituted spatial differentiation in the organization of economic production and social life.

Through an exploration of the logics of spatial reconfigurations in the Mao-era, the chapter argues that the policy target during the Mao era was to create a politically-stable state space for capital accumulation. As Li (2006) has argued cogently, Mao’s primary target was to emulate the Soviet industrialization drive and ultimately “pursue the UK and catch up with the US” (zuiying ganmei) in economic prowess. By definition, then, the Mao government’s development goal was an extreme form of economic nationalism to be instituted through uneven development. This first involved the nationalization of state control over land, labor and capital formation, following which the central government enhanced its ability to regulate flows of factors of production between provinces. Under the banner of ‘self-sufficiency’, officially-approved international trade was virtually non-existent. The constitutive role of instituted uneven development in the enhancement of central state power develops Whyte’s (2010: 5) argument that the goals of self-instituted ‘socialist’ institutions are not inherently egalitarian: “whether planners and other bureaucrats adopt and implement policies that foster equality or
generate inequality depends on their goals, priorities and perceptions of societal needs... So specifying the role of the socialist state in counteracting or aggravating any particular inequality is an empirical question, not something that can be assumed almost by definition (socialist = equality)."

In this respect, as the next section will show, reducing income inequality through the redistribution of land was only ever a policy target in order to secure political control from the KMT. Once that was achieved in 1949, uneven economic-geographical development – which generated a new class dispensation rather than a classless society – became the policy tool to drive capital accumulation. In 1958, three institutions were formed to reinforce this unevenness, namely landownership nationalization, the People’s Communes and the hukou system of demographic control. These institutions supported one another to facilitate a particular ‘price scissors’ mode of capital accumulation. Originating from the Soviet Union, this mode of accumulation refers to the state’s deliberate modification of the domestic terms of trade between the agricultural and the industrial sectors, such that agricultural commodities are under-valued and industrial commodities are over-valued. Through purchasing under-valued commodities for processing in the industrial sector and then re-selling the over-valued commodities back to the rural sector under a “unified purchase and sale” (tonggou tongxiao) system, capital surpluses were generated.

As this chapter will elaborate, research has shown the CPC extracted massive surpluses from the rural hinterland, within which 80% of the national population resided by the time Deng instituted market reforms in 1978. More crucially, this extraction extended well into the 1990s (and arguably even today). In the Chinese context at least, this would not have been possible if land, which was supposed to be redistributed to peasants for private farming between 1950 and 1952, was not nationalized. Further to land nationalization was the preclusion of urban-rural migration or even rural-rural migration; migration could alter labor prices, and thus destabilize the price-scissors model. For this reason, labor markets were immobilized in what were termed People’s Communes (renmin gongshe), county-like spatial
configurations that allowed the CPC absolute control over wage pricing and social relations of production. Yet capital accumulation would not ensue just on the basis of spatial reconfiguration, as it could not explain why peasants were willing to accept poor terms of trade and often near- or under-subsistence wages. The chapter will demonstrate that a constant state of political mobilization – specifically, Mao’s ‘let’s talk about revolution everyday’ mandate – and a ‘reward and punish’ system were crucial to keep peasants in line. The primary change in the post-Mao era, then, was arguably the replacement of collective revolution with economic autonomy.

There will be three parts to this chapter. Section 4.2 examines how the newly-formed Mao administration used the notion of “spatial egalitarianism” to politicize the land reforms. Through foregrounding the central role of space in the CPC’s political strategies, the analysis refines existing interpretations of the pre-1949 revolution as either an expression of anti-colonialism or a sporadic, locally-driven process (cf. Saich, 1994; Esherick, 1994). Section 4.3 makes the argument that the land reforms evolved into a socio-political contract between the CPC and the peasants, which in turn facilitated the launch of the next two major spatial projects, i.e. the People’s Communes and the hukou system of population control. Of these projects, the chaotic operations within the People’s Communes came under intense scrutiny by reformists (primarily Liu Shaoqi, Deng Xiaoping and Deng Zihui) following the failure of the Great Leap Forward industrialization drive in 1960. While most proposed reforms that advocated slowing down industrialization and allow more individual freedom to generate and retain agricultural surpluses were blocked by Mao Zedong in the early 1960s, these proposals would be reinstated by Deng Xiaoping after he took over Hua Guofeng as Chinese leader in 1978 (ref. Chapter 5). The issues pertaining to the production and governance of the People’s Communes would thus be given more attention. The concluding section will then delineate the conceptual contributions of the historical analysis in this chapter.
4.2 For a blank national slate: ‘scaling up’ to the national

For more than two decades prior to 1949, the CPC had been battling for political control with the incumbent Nationalist Party (hereafter Kuomintang and/or KMT). During this period, the CPC bases were geographically disparate local socio-economies that were working in relation with one another to mold a new national regulatory regime (ref Figure 1.2). Contrary to the economies in western Europe and North America after WWII, state spatiality in China did not become stabilized. Quite the contrary, civil war broke out between 1946 and 1949, and the protracted Korean War then followed between 1950 and 1953. Geopolitical considerations thus took precedence over economic construction in the years leading to and immediately following the formation of the PRC.

The CPC’s emphasis on reversing landownership inequality in the countryside began as a targeted spatial strategy to negate one parallel state-building process in the 1930s and 1940s. Specifically, the CPC aimed to nullify the Kuomintang’s simultaneous attempt to impose a modernist state structure – characterized by centralization, bureaucratization and rationalization – upon a vast and variegated socio-spatial formation that were formerly, in politico-economic terms, locked in path-dependent and quasi-autonomous arrangements with the imperial state (i.e. the Qing Dynasty; cf. Hsiao, 1967). A network of local regulatory spaces thus drove the CPC’s production of ‘new China’, but its primary objective was not a sporadic reconfiguration of the then-existing state spatiality. The goal was to eventually engender a total spatial reset – a “blank paper” that, in Mao’s vision, is “without burden”.

What, then, were the conditions that made possible this dramatic national-scale transformation of Chinese state spatiality? This chapter delineates two predominant factors that triggered this change: the Kuomintang’s approach to state building and the CPC’s localized political mobilization. On the first factor, existing research has demonstrated that the primary and persistent problem of the pre-1949 state-building process in China was the inability of the then-ruling Kuomintang to penetrate and reengineer local sociocultural institutions. To finance its state-building capacities, deriving resources from the rural villages became necessary.
Given the strong influence of the ‘local gentry’ in the villages, the Kuomintang chose to enlist them as state agents (i.e. linking the national state to the local socio-spatial formations), or what Duara (1987: 156) terms “entrepreneurial state brokers”. The key task for these state agents was to collect increased taxes. This enlistment was predicated in part on commissions paid to the brokers for funds extracted from rural villagers, and in part on the quasi-unilateral and often unsupervised use of power in the fund extraction process. The economic incentive and lack of administrative supervision left room for these brokers to be “entrepreneurial” in the manner and magnitude of their expropriation: after all, they stood to take a clandestine ‘first cut’ of the total extracted funds before reporting the remaining amount to the state, from which they would then officially take a ‘double dip’ as commission.4

Latching on the newfound incentives associated with the nascent state apparatus, these local elites were transposed from community representatives to what was referred locally as “local tyrants and evil gentries” (tuhao lieshen); their often-forceful modes of fund extractions was a major source of unrest in the countryside. Of more detriment for the Kuomintang was the accompanying impression on the peasants that the new state apparatus was inherently predatory. For this reason, as Duara (1987: 132) puts it, “the expansion of the power of the Chinese state occurs [sic] concomitantly with growing anarchy in local society”. Duara (1987: 135-136) conceptualizes this decentralization as “state involution” (cf. Chapters 1 and 10):

State involution occurs when state organizations expand not through the increasingly efficient use of existing or new inputs, which in this case refers to personnel and other administrative resources, but through the replication, extension, and elaboration of an inherited pattern of state-society relations...State involution climaxes at a level where the proliferation of brokerage across the society becomes a barrier to the rationalization of state organizations, which are now doomed to modes of expansion that are oppressive and disruptive of local society.

Because this state-gentry engagement exacerbated the exploitation of the poor peasants, the rural rebellions could more aptly be characterized as outcomes of predatory governance by an expansionary, Kuomintang-driven state structure. Here, Duara (1987: 157) makes an important theoretical argument on the contributory role of state involution on the CPC’s ‘scaling up’ strategies: contra Skocpol’s (1979) claim that revolution necessitates a weakening state, state involution “suggests a more differentiated perspective on the state where growth in certain
spheres could itself unleash a process of self-destruction and revolutionary transformation”. Pepper’s (1999: 7) study on the Chinese civil war lend further support to this argument by demonstrating how, after WWII, the KMT “failed to provide any equitable and orderly means for disposing of enemy [i.e. Japanese] property”. The ensuing public disapproval of the KMT’s unclear and frequently corrupt post-WWII policies meant the status of the Chinese state was highly fragile. And this created an opportunity for the CPC to strike.

Before it could do so, however, the CPC had to confront one important challenge, namely, the initial unwillingness of poor peasants to engage in large-scale violent uprisings (cf. Bianco and Lloyd, 1986; Bianco, 2001; Zhang, 2001). The peasants’ use of violence during the land reforms was implicitly permitted by the “Directives by the CPC Central pertaining to land problems” introduced on 4 May 1946 (also widely known in China as the ‘May Fourth Directives’, or wusi zhishi. Announcing the directives, then-CPC second-in-command Liu Shaoqi (1946: n.p.; author’s translation) implored fellow cadres to ‘not fear’ (buyao haipa) the following developments, namely:

- Do not fear common changes in the land relations within the liberated areas.
- Do not fear peasants obtaining large amounts of land while landlords lose their land.
- Do not fear eradicating feudal expropriation within rural villages.
- Do not fear rebukes and threats from landlords.
- Do not fear temporary dissatisfactions and indecisiveness from moderate factions.

The anchor of these five ‘fearlessness’ could arguably be termed authorized lawlessness. That this ‘freedom from legal obligations’ must be authorized ‘from above’ was contradictory, to be sure, but it was precisely this contradiction that shattered the “state involution” stasis generated by the Kuomintang (cf. Duara, 1987): a consciousness of the need to be emancipated from oppressive socio-spatial structures emerged and expanded en masse ‘from below’ because it was orchestrated ‘from above’ (cf. Bayırbağ, 2013). In this regard, the “lawlessness” in question was a subset of a broader power in-the-becoming (i.e. a nascent, CPC-driven national regulatory cultivated in the image of the Soviet Union): the peasants’
newfound freedom to fight for freedom – a leading cadre, Deng Zihui, would later acknowledge that Chinese peasants loved “four big freedoms” (sida ziyu; to be elaborated in the next section) – became a function of this power to be.

This act of politicization takes on contemporary resonance by indicating how the formation of a national agenda of economic development in China is always a contingent process (ref. discussion on experimentation in Chapter 1; see also Chapters 6 and 8). While it could be argued that the 1946 May Fourth Directives signaled the resumption of the CPC’s pre-1937 practices of land confiscations, this apparent resumption was not a historical or ideological inevitability. The scale of the task was immense; its outcome unpredictable. Indeed, the odds appeared stacked against the CPC at the time: they occupied 19 “liberated zones”, which encompassed just 1/4 of the country’s territory and 1/3 of its population. Getting the peasants on their side thus entailed colossal propagandistic and practical interventions (see Lynch, 2010; DeMare, 2012). What this meant was that the war against the KMT took precedence, in a sequence that first entailed the military to “liberate” new territories before peasants were mobilized against landlords to consolidate support for the incoming CPC.

With reference to unevaluated evidence, the intensification of land reforms in 1946 should more aptly be seen as a conjuncturally-specific and intrinsically speculative spatial strategy aimed at strengthening the CPC’s socio-political control vis-à-vis the Kuomintang. As Liu Shaoqi recounted in April 1947:

The ‘May Fourth Directives’ were written thrice, the first two drafts were not like that; the ‘whoever farms, gets land’ principle was not mentioned yet. At the time Bo Yibo, Li Yu and other comrades arrived at Yan’an [one month before the release of the final draft] and talked about the situations in different places, the directives [of earlier drafts] were shown to them. They said the masses would not accept the methods of the past [i.e. just reducing rents and interests]. The [ultimate] May Fourth Directives were written after incorporating the views of the masses” (cited in Ma and Qi, 1994: 88; author’s translation).

There are two significant implications to Liu’s recollection that are hitherto unaddressed in the literature. First, the central branch of the CPC was unsure whether egalitarian land redistribution would be the right policy emphasis; such was the prevailing uncertainty, indeed, this emphasis was not even included in the first two drafts. This fact brings into question the
notion mentioned earlier that landownership equality has an automatic connection to revolutionary impulses (cf. Tang, 2006; section 2.1). Just like the rescaling of Hengqin, Qianhai and Liangjiang New Areas did not exist on the planning agenda until 2008-2009, during and after which the CPC felt it had to respond to the global financial crisis through strategic spatial reconfiguration, land redistribution was only deemed to be “right” in the post-WWII conjuncture when the CPC was confident it could make a feasible attempt at ‘scaling up’ the process of state spatial formation.

Second, it strongly suggests the leading CPC policymakers did a policy about-turn, given the short, month-long gap between the second version and the final release of the May Fourth Directives, after learning that peasants in different locations could be motivated by the prospects of owning their own land. That having an economic carrot – household-based land ownership – could motivate peasants was realized after the fact, not a priori. It was arguably for this reason that Mao ‘scaled up’ the land reform there and then by portraying it as a necessary spatial strategy, a “fundamental link”:

At the 7th party congress, the discussion on resolving land problems was based on reducing land rents and interests, it was to derive the appropriate method to actualize [the principle] ‘whoever farms gets land’ (gengze youqitian). At the time the representatives at the 7th party congress had stayed too long in Yan’an, there was no way to fully reflect new experiences in new places. With this current initiative, we are able to solve the problem from an ideological level and in the process give benefits to 100 million people. This way we can engage in serious struggle and not lose the support of the masses. The Kuomintang has many strong points compared to us, but they have a huge weakness, that is the inability to resolve the land problem, this is our strong point…the resolution of the land problem is a fundamental problem, it is the fundamental link of all other work, the entire party must recognize this point. (Mao, 1993a: 78; author’s translation)

This sudden policy shift exemplifies what Heilmann and Perry (2011) terms “adaptive governance” (ref. Chapters 1 and 2): it shows the spontaneous nature of “fundamental links” in the CPC’s work. What the May Fourth Directives did on a concrete basis was to officially allow Mao, almost two decades after his 1927 call to arms, to opportunistically turn landownership inequality into a “land problem”. This proclivity to react to – or, more specifically, take a risk on – place-specific openings to enhance its political power continues to characterize the CPC’s modus operandi. As will be discussed in Chapters 6 to 9, Hu Jintao reacted to the 2008 global financial crisis by calling it an “opportunite” moment for economic restructuring. Soon thereafter,
the ambitious rescaling attempts proposed by two prominent cadres, Wang Yang and Bo Xilai, were approved by the central government.

Yet, just like any contemporary state-building process, the Directives per se did not guarantee success for the Mao government. Rather, the process to connect the local scale to a new state-building objective was literally a struggle – a militant struggle. As documented vividly by Yang (2007: 317-322), violence reverberated throughout the CPC’s campaign between 1946 and 1949 to reform this “land problem”. Beijing-based historian Zhang Ming (2003: 33; author’s translation) explains how violence was central to the CPC’s political success: “It was impossible for the land reforms to employ a peaceful approach, it was not that this possibility did not exist, rather, a peaceful approach diametrically opposed the goal of mobilization.” Of particular significance, Zhang continues, is the observation that “the practice during the land reform campaign did not even permit landlords to give up their land willingly (dizhu xiandi)…The land reforms must be done through fierce and violent struggles. This is the only way to keep the atmosphere tense, elevate the sense of enmity, and attain the mobilization motive” (Ibid.).

Through this geographical-historical analysis, it would be more accurate to construe the intensified, post-1946 peasant rebellion as a place-specific strategy to purge predetermined ‘class enemies’ (particularly the aforementioned landlord/gentry class) and, by extension, preclude them from forming alliances with one another and/or with the Kuomintang. The strategy was not just actualized through propagandistic means or top-down orders; peasants were clearly keen on land reform. As Hinton (1966) documents, the CPC activated a preexisting – if then dormant – intention to ‘settle scores’ and overturn the landlord class domination within villages. Rather than a natural product of being ‘poor and blank’ (yiqiong erbai), then, the peasant revolution that enabled the land reforms more accurately corresponds to the argument presented in Chapter 2: it was a politicized experimental policy that gradually evolved from the local scale to become a broader tool of state spatial formation. Once this national scale took shape, the bigger and still ongoing challenge would be to integrate it
through a series of projects that reconfigures the spatial logics of socio-economic regulation (see section 4.3).

Conceptually, the CPC’s attempt to connect sporadic local economic spaces into an integrated new state space reinforces Brenner’s (2004: 111) view of state spatial changes: “As diverse social forces struggle to mobilize state institutions towards their own ends, state space is continuously reconfigured, whether through explicit projects to reorganize the geographies of state territorial organization and state intervention, or as indirect outcomes of ongoing regulatory experiments and socio-political conflicts.” Brenner is right to define state spatiality as an outcome of struggles from “diverse social forces”. In the context of the CPC-driven land reforms, these social forces (of which the CPC was an integral part) sought not to “mobilize state institutions”; the goal was to overturn the Kuomintang-developed state structure \textit{in toto}. Ironically, then, the peasant revolution transposed from a predominantly anti-statist process to the foundation of/for post-1949 state-building in China. This in turn raises an intriguing question on the CPC’s regulatory approach when it formally became a state apparatus: how could it preclude the (re)generation of a state involutionary stasis as it proceeded to launch its own series of political centralization, bureaucratization and rationalization after 1949? As the next section will show, the CPC chose to institute uneven development.

4.3. Making the spatial leap to communist heaven

4.3.1 Spatial bridges to heaven

“Communism is heaven; the People’s Communes are the bridges” (\textit{gongchanzhuyi shi tiantang, renmin gongshe shi qiaoliang}) – Couplet written by Kang Sheng, 1958; author’s translation.

“The Chinese dream is an ideal. Communists should have a higher ideal, and that is Communism.” – Chinese President Xi Jinping (\textit{The Economist}, 4 May 2013)

China’s top leaders have always been dreaming of communism since 1949. While it is generally accepted today that the ascendance to a Marxian communist end-state remains far off, the sole attempt made in the late 1950s generated lasting socio-spatial legacies. This attempt was driven by two interrelated projects that reconfigured economic geographies across
the newly-formed state space, namely landownership nationalization and the collectivization of economic production and social reproduction. But this process did not occur in a linear and unproblematic manner. Indeed, during the first five years after gaining power at the national level, the CPC top leadership was confronted with a twofold policy challenge: what was to be done with the preexisting industrial capitalists and the peasants’ newfound freedom to engage in economic production?

The issue immediately became a focal point of debates. One faction, led by Liu Shaoqi, advocated following the Marxian-Leninist direction of first allowing industrialization and mechanization to occur before moving into collectivization and, eventually, total public ownership. Adopting this step would thus entail engaging – not exterminating – private capitalists and encouraging household-based production. Perhaps more intriguingly, Joseph Stalin also advocated this approach in a series of advisories to the Mao administration (see Li, 2006). Another faction, led by Gao Gang, then-chief of the Northeast Administrative Region, publicly cited examples that facilitating private production would only mean peasants would again be free to be exploited. (For the full description of the debate, see Box 1). In what was arguably a first act of theoretical revisionism during his 27-year long tenure at the helm, Mao took Gao’s side and began to lobby for a socialist mode of production as the precondition of industrialization and public ownership. With one stroke, Mao sought to follow the footsteps of the younger Stalin by altering these two postulations by Marx and Lenin:

1) In the Critique of the Gotha Program, Karl Marx argued that the socialist mode of production could flourish only after it has fully emerged from its womb: capitalism. For Mao, the socialist mode of production could emerge without the need for a capitalist mode of production. The landownership reforms had provided a platform for a total eradication of exploitation by private capitalists, and Mao viewed that as the opportunity to institute absolute public ownership of the means of production (including labor power).

2) Lenin believed it was only through mechanization that rural collectivization would be most efficient. Without the preexisting ability to manufacture and deploy mechanical
equipment, peasants would not be able to reap the expected economies of scale. To overcome the mechanization challenge, Mao sought Soviet assistance where necessary, and believed rural support of urban-based industrialization could eventually overcome the need for large-scale importation of mechanized technology. It was for this reason that rural collectivization was viewed as integral to, rather than an outcome of, the industrialization process. (For a more extensive discussion on this point, see Bramall, 2008: 219-226).

Box 4.1 In the beginning was...socialism? A chicken-or-egg-first debate prior to the production of a state spatial ‘blank slate’ between 1949-1958

In the nascent years of state spatial formation, there was no immediate plan to develop a socialist mode of production. Indeed, it appeared that the nationwide land reforms, about to conclude at the time, were producing a new household-based agrarian system of production. Former middle- and poor peasants were given land, on which they could be literally free to decide what to produce. Yet some peasants opted to group themselves into cooperatives. Gao Gang, then leader of the cross-provincial northeastern administrative region, even explicitly called for collectivization and for an immediate launch of a transition to socialism in 1950. Liu Shaoqi, then the second authority in command, shot down this proposal. This issue over the role of cooperatives in the transition to socialism would become the central focal point of a debate over the virtues of ‘capitalism’ and ‘socialism’.

To Liu, small co-operatives could not develop into socialist collectives. He believed the decline of co-operatives was actually good because it implied more peasants could be self-reliant and launch individualized production (as recounted by Bo, 1997: 197; author’s translation). Referring to Saint Simon, Liu went on to argue that one could still be a socialist while engaging in expropriation, and there would be no problem for poor- and middle-peasants to join the Party after they have become ‘rich peasants’ (Bo, 1997: 198; author’s translation). Liu’s view on the process of expropriation was consistent with his broader conviction, as he sought to assure private capitalists in a separate speech in Tianjin that “it is justifiable for expropriation to occur” (boduo yougong) insofar as China has yet to enter the stage of socialism.

As Bo (1997: 198) recounts, Mao’s facial expression changed when he learnt of Liu’s views. In Mao’s opinion, agricultural collectivization could become the bedrock of mechanization (which was ironic, as aforementioned, given it contradicted Lenin’s vision). Driven by a strong urge to emulate the Soviet Union’s agricultural collectivization (which also negated Marx and Lenin’s postulations), Mao was of the opinion that larger collectives were necessary if China were to successfully follow its ‘Soviet brother’. The apparent economic logic was to derive economies of scale: organized peasants could be more efficient in resisting large-scale natural disasters, make better use of equipment, have stronger purchasing power, etc. (on the interaction between Mao’s thinking and Soviet policies between 1949 and 1953, see Li, 2006; Bramall, 2008). More importantly, collectivization would preclude poor peasants from selling their land to richer peasants (which seemed to be occurring already in the Northeast, almost immediately after the establishment of the PRC). The ultimate aim was thereby political: well aware of the potentially destructive impact of landownership inequality in the countryside, Mao would not countenance a geographical-historical
For these views and similar perspectives on individualized production immediately after the Great Leap Forward, Liu would ultimately be castigated as ‘China’s No. 1 Capitalist Roader’ during the Cultural Revolution (1966-68). After Deng Xiaoping – who was labeled ‘No. 2 Capitalist Roader’ in 1966, just behind Liu – was restored to the top echelon in the late 1970s, the views espoused by Liu et al began to reemerge. Indeed, one could almost hear Liu’s boduo yougong logic reverberate through Deng’s 1994 comment that there is ‘market regulation in socialism too’ (ref. next chapter).

Source: Bo (1997: 194-203); Li (2006); Bramall, 2008. Author’s compilation and translation.

By 1952, it was clear that the Chinese nascent national regulatory structure would be modeled after Stalin’s radical approach to collectivization in the Soviet Union (Li, 2006; Kirby, 2006). The ambassador in Moscow at the time, Zhang Wentian, was explicitly instructed to learn how Soviet institutions work, while Liu Shaoqi was dispatched to Moscow to officially request for assistance. Following the drafting of the First Five Year Plan in 1953, the collectivization drive began. The approach, as described in detail below, involved three incremental stages of regulatory reconfigurations within a very short time frame of four years:

- **Elementary cooperatives** (*chuji hezuoshe*): Landownership and other means of production like farming equipment and draught animals were ‘scaled up’ from individual households to the cooperatives. Peasants’ contributions were considered shares. Ownership of residential housing (*zaijidi*), domestic animals and small tools remained at the individual household level, and peasants were allowed to grow vegetables and raise pigs and poultry for subsistence within ‘individually-reserved land’ (*ziliudi*). This amount of *de facto* private land could not exceed 5% of the average cooperative landholding. Cooperative output had to be sold to the state at state-determined prices, and peasants’ compensations were calculated based on their labor days and the proportion of their shares in the cooperative. The (re)distributive basis of elementary cooperatives remained private ownership; *a priori* ownership of land and equipment determined subsequent profits.

- **Advanced cooperatives** (*gaoji hezuoshe*): The same ‘scaling up’ process as the
elementary cooperative, but it was different in quantitative and qualitative aspects. In quantitative terms, the physical scale differed from the elementary cooperatives: the number of households in these cooperatives ranged from 150 to 300. In qualitative terms, two aspects were distinct. First, the formation of advanced cooperatives was largely predicated on administrative orders. These orders – which exemplified the power of central control over the Chinese economy – came after Mao Zedong criticized the cooperative formation process as “right leaning” (youqing). This critique, along with the publication of Mao’s Socialist Upsurge in China’s Countryside\(^6\), triggered the administrative process of creating advanced cooperatives. The second qualitative difference pertained to the (re)distributive basis: no shares were given to peasants for land contributions; contributions of draught animals, tools and other equipment of value for economic production were compensated with a one-off payment. Paradoxically, these payments would ultimately be retrieved through taxation of over-priced goods sold by SOEs to commune residents (cf. Box 2.1, Chapter 2). Subsequent compensations were based solely on labor days. This qualitative shift effectively negated the peasants’ gains from the land reforms of the previous decade – private individual ownership of land and other means of agricultural production transposed into an economic phenomenon known literally – and ironically – as “big public ownership, no private calculations” (dagong wusi)\(^7\).

In August 1958, the Chinese central government issued the “Resolution to establish People’s Communes in rural villages”. The official injunction\(^8\) called for four actions on the part of cadres, namely, 1) To ensure the merger of politics and commune (zhengsheheyi) through the integration of workers, farmers, soldiers, students and merchants; 2) Emphasize the ‘bottom up’ approach to commune formation, with smaller units coming together to select the management committee of the bigger commune; 3) In the process of merging cooperatives, the ‘spirit of communism’ should be applied where addressing differences in the assets and debts of each preexisting cooperative; 4) Indicate the current ownership institution of the people’s
commune is collectivized ownership, with the possibility of full ownership by the people in the future, as preparation for the transition to communism. Following this injunction, 740,000 advanced cooperatives were amalgamated into 26,000-odd People’s Communes. Almost at the same time, the Great Leap Forward industrialization strategy – powered by the rural collectivization rather than the urbanization of capital – was launched.

The primary objective of this critical analysis is to distill the regulatory logics of the Commune development and, by extension, explain its legacy for/on present-day socioeconomic development in China. The intention is not to evaluate the catastrophic consequences of the Great Leap Forward; this is a major and possibly maturing area of study (see Yang, 1996; Chang and Halliday, 2005; Gao, 2008; Dikötter, 2011). The aim is also not to make a judgment whether Mao and his fellow policymakers were detached from reality and were, by extension, theoretically-mistaken (if anything, it was clear that Mao and his advisors understood that proceeding with their policies meant taking up the challenge of disproving several key tenets of Marxism-Leninism). Specifically the chapter aims to ascertain the rationale of this colossal project of socioeconomic regulation: it examines how this project allowed the CPC to enhance and expand its state power at once at the national and the individual scale in such a short period after securing political control. In so doing, it addresses these questions: Why did the peasants, having only been redistributed land, so quickly relinquished their hard-fought ownership rights? If, by Mao’s proclamation in 1949, the Chinese poor have shed their enslaved past to become “rulers” (zuo zhuren le), how would the Chinese poor be able to “rule” when their means of production have been nationalized?

Several answers appear plausible. The first, as the former Northeastern region chief Gao Gang already intimated at the time, was the emerging trend towards the formation of mutual-aid teams and cooperatives. This suggests peasants were cognizant of the drawbacks of household-based production and were inherently in favor of collectivization. Yet, as the Liu camp suggested, there was insufficient industrial capacity to support collectivization, which rendered moot the pro-collectivization argument. As Deng Zihui, then Head of the Agricultural
Commission and a supporter of Liu’s policies, acknowledged in 1953, what peasants truly wanted were (and probably still are) ‘four big freedoms’:

Precisely because peasants are small private owners, dependent on a few mu of land for subsistence, hence they have a similarity with the capitalist class – [they are] very calculative and want money. Comrades are clear that when it comes to generosity, peasants can be very generous, but when it comes to pettiness, they can be very petty. Where land was not redistributed fairly during the land reforms, they made a lot of noise and argued fiercely, it would be good even if they got redistributed an extra pair of chopsticks. Why? It’s because peasants are small private owners, hence, like the capitalist class, they also like the ‘four freedoms’ (sida zhiyou) – freedom to trade, freedom to give or receive credit, freedom to hire and freedom to rent, [they are] unwilling to be meddling with, to be restricted. To not recognize this point and [let the state] purchase everything [tonggou] would meet objection from the peasants. (Deng, 2006: 182; author’s translation)

Mao would have none of Deng’s interpretation, however. For his comments, Deng Zihui was ridiculed as a ‘small footed woman’ whose tendency was to ‘sway to the left, and sway to the right’ (for an in-depth discussion on the politics between Mao and Deng, see Teiwes and Sun, 1993). Neither was he bothered by “objections from the farmers”. A closer analysis of Mao’s speech to fellow cadres at the launch of the May Fourth Directives in 1946 revealed what he really required of the peasants was a willingness to rebel, not egalitarianism per se: “The peasants’ egalitarianism are revolutionary prior to the land redistribution, do not object to that; what should be objected is the egalitarianism after the land redistribution” (Mao, 1993: 78-79; author’s translation and emphasis). This emphasis echoes Bianco’s (2001: 233) influential interpretation that the “peasant revolution” was in fact “a peasant movement without peasants”: the peasants’ human agency were procured primarily for political ends, and what counted as ‘egalitarianism’ in one period could – and did – easily expire in another (cf. Zhang, 2001, 2003).

Interestingly, the CPC’s subsequent push for instituted collectivization was an admission that Deng Zihui’s interpretation was correct: individualized production, Mao subsequently reasoned, was indeed desired, but it was deemed to be the bedrock of capitalism and thus had to be eradicated. In this regard, Mao’s 1946 comment that egalitarianism is a fluid concept takes on geographical significance: prior to the revolution, the emphasis was solely about egalitarian land redistribution, but following that, egalitarianism was to follow the Soviet trajectory of radical socioeconomic collectivization (cf. Whyte, 2010). Right from the beginning,
as Li (2006: 187) concludes from a detailed study of Mao’s Stalinistic inclination, only one direction was laid out for China’s developmental trajectory: “There was no place in Mao’s vision of a socialist economy for market forces or a private economy”. Zhou Qiren, an influential Chinese economist, offers a thought-provoking interpretation on the political logic and implication of this sudden ‘scaling up’ of the ownership rights to redistributed land:

The institution of asset ownership rights formed after the land reforms was undoubtedly one of private peasant ownership. However, this type of private ownership institution was not a product of a long-term and self-regulatory market of property rights transactions, nor was it an outcome of some state-imposed limitations on transactions in property rights; rather, it is the redistributive outcome of a large-scale, state-organized class struggle of the masses.

As Zhou adds, a key political outcome of this redistributive process is the corresponding necessity for the newly-formed state apparatus to legitimize the redistributed land:

Because the state had a decisive function in organizing and leading peasants with little or no land in the campaign to equalize land distribution, and its acknowledgement was needed to swiftly legitimize the redistributive outcome, it infused its will into the peasants’ asset ownership rights. When the state’s will changes, the peasants’ private ownership institution would have to change. (Zhou, 1995: 183; author’s translation)

In other words, peasants’ very acceptance of land redistribution effectively amounted to the unequivocal acceptance of the CPC’s ‘dictatorship of the proletariat’. The root of the problem thus had to be traced back to the pre-1949 land reforms: peasants were induced into fully supporting the CPC against the landlords; that very choice meant they also accepted, by default, full subjugation to the CPC. The unspoken corollary of this social compact was the significant degree of political power afforded to the state apparatus to reconfigure its newly-acquired state spatiality:

The private ownership rights that emerged after the land reforms on the Chinese mainland was a direct redistributive outcome of a socio-political campaign. As such, the private ownership institution (geti siyouzhi) that was formed after the land reforms already contained the possibility of collectivization and nationalization, this is because a state that created ownership rights through political campaigns could similarly change ownership rights through political campaigns…In an environment where the state can dictate ownership rights and alter the contract of ownership rights at will without the need for social negotiation, even if the most efficient property rights institution is adopted totally, it would be of no use to long term economic growth. (Ibid.)

One problem with Zhou’s otherwise convincing theorization is that “long term economic growth”, whilst important, was never prioritized over political-ideological concerns. Indeed, the economic ‘base’, as Mao would put it in Marxian parlance, was to be subservient to the goal of absolute
political domination of the masses. The enhancement of the ‘superstructure’, as was made clear after Stalin’s death in 1953, was to precede economic construction. Two political effects were generated. On one hand, it was used to confine and transcend inherited class categories (even though, following the completion of land reforms in 1952, there should technically be no more class categories). Following the conclusion of the rural land reforms in 1952, the ensuing class equalization theoretically eradicated uneven economic-geographical development. Because the CPC did not relinquish this right to own land in the last instance (there is no freehold land even in the present), the land reforms of the 1950s explains why the Chinese party-state apparatus retains a strong bargaining position vis-à-vis transnational capital in the post-Mao era.

In an ironic twist, however, the Mao government’s practical emphasis on class struggle perpetuated social stratification. There can be no class struggle without class. But the intensified confiscation of land and other means of production from previous landlords and rich peasants and the subsequent collectivization of these means of production were supposed to produce a ‘classless’ society – led by what is known as “asset-less class”, or wuchan jieji. Where, then, were the struggling classes going to come from? Just as geography (landownership inequality) was of causal significance in the negation of class conflicts, it was elemental to the enhancement of class struggle. The establishment of the People’s Communes, in tandem with the nationwide hukou (household registration) demographic control institution launched in the same year, effectively produced new relations of production that kept in place class differences.

Central to these new relations was an attempt to motivate peasants through politicization. Once the spatial boundaries of the communes were instituted, class background – the aforementioned classification of the population into landlords, funongs, etc. (ref. section 4.2.1) – was of particular importance in the allocation of duties. As Unger (1984) describes in a vivid study of Chen village in Guangdong province, class background – and, more specifically, what was construed as good class background – in and of itself had a causal impact on human
behavior and human relations within the communes (cf. Kraus, 1977; Potter, 1983). Technically, the social structure within the communes marked a reconfiguration of pre-1949 uneven development, not its eradication. The oppressed were now the (rhetorically) celebrated class; to avoid trouble, the oppressors had to accept subjugation and keep a low profile. The reconfiguration process, which kept intact social dominance by a (new) ruling class, was accompanied by the concomitant spatial delimitation of two new classes: the rural-based peasantry (which ensured the reconfigured rural social relations stayed in situ) and the urban-based industrial workers (agents producing commodities for re-sale back to the rural peasantries at heavily marked up prices; see next section).

Figure 4.1 shows a spatial plan of resident congregation points in Wengjiang People’s Commune, Guangdong province. The size of the white circles indicates preexisting population size, the smallest contains less than 50 residents, the largest 300 and above. Each commune has a commune headquarter (shaded star within one circle) and a county headquarter (shaded star within two circles). Multiple new villages, indicated by the non-shaded stars within a circle, were to be constructed. The production unit of accounting would incorporate inputs and outputs that flow through these different residential points. Much of socioeconomic relations under Mao was organized in and delimited by this new scalar arrangement.
Figure 4.1 Spatial layout of Wengjiang People’s Commune, approximately 60km$^2$ in geo-physical area. 
Source: Plan prepared by People’s Commune Planning Team in the Department of Geography, Sun Yat-Sen University. Published by The Geographical Society of China and Chinese Academy of Sciences Geographical Research Institute (1959: unpaged, between p. 64 and p. 65). Author’s description in English.
Within the communes, each individual had to be classified as either an ‘agricultural’ (nongmin) or ‘non-agricultural’ resident (fei nongmin), and along with this classification came a certain set of rights (and prohibitions), the primary of which was severely proscribed movement between (rural) communes and/or (urban) industrial units (gongye danweis). As a senior academic who resided in the communes put it, class categories (and pre-1949 class backgrounds) solidified into a hereditary and non-fluid form (jieji guhua) because new spatial parameters were established (Author’s field notes, Beijing, February 2012; more on this in the next section). It was this solidification that conferred further legitimacy to the CPC’s claim to safeguard the economic assets of the ‘proletariat’ against otherwise exploitative private capitalists. And while a range of changes were made to this institution in the post-Mao era (ref. Chapter 5), the tensions pertaining to attempts to overhaul this in Chongqing strongly suggest the classification retains regulatory logic for the CPC (ref. Chapters 8 and 9).

The second political effect, deeply entwined with the first, was the removal of the former ‘scalar connectors’ between the central government and peasants located at the county or village scales (cf. section 4.2). The primary objective was arguably to overcome the state involution stasis experienced by the Kuomintang before 1949. It was only with the attainment of this objective that Mao’s administration could work towards a second objective – the ‘price scissors’ mode of capital accumulation based on planned spatial differentiation (to be elaborated in the next section). Exemplifying the Chinese saying “a strong dragon can’t defeat a local snake” (qianglong doubuguo ditoushe), the People’s Commune – with its emphasis on integrating political institutions with economic production in the commune (zhengshe heyi) – institutionalized the extirpation of preexisting “local snakes”, namely, the gentry and/or lineage heads. This institutional legacy extends to the present-day governance under the Xi Jinping regime. Taking the place of these “local snakes” is a Party Secretary, who heads a Party branch that is established in each administrative village or, when the Communes were still functioning, the production brigade (shengchandui).

The logic of this new institutional establishment is to deepen the CPC’s political
penetration to/at the local scale. The Party Secretary, who was appointed by officials positioned at a higher scale (usually at the township level), was to represent the interests of the CPC in the first instance. This contrasts the role of the former “local snakes”, the de facto community leaders tasked with containing the advances of the central state. In an ironic reflection of path-dependency, these local Party Secretaries were often native villagers, which essentially means that the central government’s link to the local villages replicated the Kuomintang’s modus operandi. The key difference between new Party Secretary appointees and the (former) local gentry was their respective ‘class backgrounds’, which in turn inverted the power balance but not the nature of political control. It did not matter, indeed, whether the village Party Secretary was a black or brown cat, s/he is good so long as they could keep the mice – the ‘class enemies’ du jour – at bay. This intensely localized governance-cum-surveillance approach, known in China as “a thousand threads being held together by a single needle” (shangmian qiantiaoxian, dixia yigenzhen), at once reflected and subverted the Foucauldian notion of the all seeing eye: the panopticon was in existence, but it was not only located in Beijing – there was one in every village.

At the same time as ‘right leaning’ cadres were monitored and/or ‘struggled against’ in the communes, nascent attempts were launched to create a different kind of society – a communist society. This attempt was reflected through the integration of the wage system (gongzizhi) with the benefits supply system (gonggeizhi). Three gradations in benefits provision could be discerned within the redistributive system. The first is the smallest in scope, limited to providing a limitless supply of meals. The slogan for this system is ‘no need to pay for food, open your stomach and eat your fill’ (chifan buyao qian, zhangkai duzi chibao fan). To fund this redistributive process, the commune would extract and pool together the staples food portion of remuneration to be disbursed to members; members would still have to pay, using their allocated wages, for non-staple foods. The second type overlapped the first, but included non-staple foods for free provision. The third type is relatively distinct: while overlapping the first two types, it encompassed a much broader range of social services like housing, clothing,
education etc. Within this third type, some provinces took on ‘seven encompasses’ (qibao, i.e. covering seven social services), while ambitious ones undertook ‘ten encompasses’ (shibao) or even ‘fifteen encompasses’ (shiwubao).

While the redistributive approach within the communes was very short-lived, it was the only instance in post-1949 China in which the CPC attempt to redistribute resources in tandem with economic production. Here, the CPC’s evaluation of the Communes’ history deserves emphasis: “Its appearance is not a spontaneous occurrence; it is the product of our country’s economic and political development, it is the product of our Party’s socialist adjustment campaign (zhengfeng yundong), it is the product of the General Line of Socialist Construction and the 1958 socialist Great Leap Forward.” (CCCPC Party Literature Research Office, 1995: 598). The key point to note is the communes were not a “spontaneous occurrence” – indeed, as discussed in Chapter 2, it was a scaled spatial entity to experiment with socialistic principles. The association of proactive redistribution with the ‘socialist high tide’ of 1958 was arguably why former Chongqing Party Secretary Bo Xilai’s claim to drive capital accumulation together with the enhancement of social equity aroused memories of ‘Maoism’ (see discussion in Chapter 9). To be specific, the Chongqing reforms foregrounded the redistributive rationale of the communes, namely to ensure peasants get to access a broad range of social benefits. Former senior cadre Bo Yibo – father of Bo Xilai – put this redistributive rationale in perspective:

> When Chairman Mao and Comrade Shaoqi talked about the national scenario after several decades, they said our villages would have many communist communes, each commune has its own agricultural industries, manufacturing industries, universities, secondary schools, primary schools, there are hospitals, scientific research organizations, there are shops and services, there are transport enterprises, childcare nurseries and public canteens, there are social clubs and volunteer police that maintains security et cetera, several villages will surround the cities and become even bigger communes. The utopianism of earlier thinkers will be realized and surpassed. (Lu Dingyi, May 1958; recounted by Bo Yibo, 1997: 732-733; author’s translation)

Mao and Liu did not openly express a crucial point, however. The actualization of this new spatial logic of socioeconomic regulation in the communes was based on the institutionalization rather than the removal of uneven economic-geographical development. Indeed, the redistributive tendency within the People’s Communes was doubly ironic because 1) the very
existence of the communes not only reproduced but entrenched uneven development in place (cf. Figure 4.1); and 2) the assumption that urban-based industrialization would eventually ‘trickle across’ space to benefit the rural peasants never materialized (see next section). Rather, according to recollections from Sun Wenguang, a senior academic from Shandong who experienced first hand life in the People’s Communes, what happened within the communes only dampened peasants’ production enthusiasm and eroded faith in the institutional integrity of the People’s Communes:

Only a few months elapsed from the transition advanced cooperatives to the People’s Communes, most matters were simply decided from the top. Many of the cadres in the Communes did not possess any experience in the management of large-scale agricultural production! After they assumed office, they had to follow orders from above, their ‘officialdom’ was determined from above, no voting existed. Hence when it came to managing issues and directing economic production, they spoke only of politics and not of scientific logic, decision-making was based on spur-of-the-moment whims and fancies! This was the so-called ‘blind commandeering’ (xia zhihui) that prevailed across the communes...These cadres possessed huge authority within the Communes, authority over finance, redistribution, adjustment, their authority was unlimited. Hence they went around eating and drinking, were very corrupt, and it was commonly known within the villages that they were ‘bridegrooms’ every night, many villagers were unsurprisingly disgusted by such behavior. As a result, production enthusiasm dropped significantly. (The Epoch Times, 2 December 2009)

Interestingly, even Mao agreed that nascent practices within the Communes, which literally rendered peasants ‘asset-less’, constituted a form of expropriation:

Because we expropriated the peasants, this is not permissible by Marxism-Leninism. The uncompensated deployment of the fruits of the peasants’ labor is worse than the expropriations of landlords and capitalists, capitalists still need to pay some prices, just unfair prices, yet the uncompensated deployment pays nothing...The commune originally had nothing; it did not emerge honestly from scratch (baishou qijia); its origins had dark roots (heishou qijia). (Mao, 1999b: 227; author’s translation).

Attempts to resolve the “dark roots” of the People’s Communes did not fully begin until the 1980s, however. As the next section will elaborate, expropriation through the ‘price scissors effect’ continued throughout the rest of Mao’s reign. Even today, its institutional legacies remain in the countryside (see next chapter). Despite these contradictions, the intention to effect redistributive justice within the communes deserves emphasis: it established a precedent against which current and future redistributive policies could be evaluated. As recent empirical evidence of acute uneven development across Chinese state space suggests, redistributive mechanisms introduced over the past decade plainly could not overcome the exploitations

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associated with the drive towards a ‘socialist market economy’ (re. Table 1.1, Chapter 1).

Indeed, the *hukou* system that instituted the rural-urban unevenness in welfare provision still remains under the current Xi Jinping regime despite several rounds of reforms (ref. section 3.2 and Chapter 5). The challenges of equitable redistribution, in an interesting turn, were once again foregrounded through a series of reforms introduced in Chongqing since 2007. These challenges will be addressed specifically in Chapters 8 and 9.

### 4.3.2 The socioeconomic logics of the hukou institution

The PRC’s household registration system (hereafter called the *hukou* system) was first instituted in 1951 to monitor the movement and residence of urban populations. It was further expanded to encompass the rural and urban populations in 1955 (Cheng and Selden, 1994; Chan, 1994). The “Regulation on Hukou Registration of the PRC”¹², promulgated on 9 January 1958, became the main policy that led to the spatial immobilization of Chinese citizens. The newly-formed national population was grouped into four *hukou* categories: urban agricultural *hukou*, urban non-agricultural *hukou*, rural agricultural *hukou*, and rural non-agricultural *hukou*. Under this categorization, one’s legal registration was dual-classified, both by residential location (*hukou suozaidi*, which is a literal translation of the location of *hukou* registration) and by the *hukou* status (*hukou leibie*, a category that illustrates the connection of *hukou* registration to social benefits). The *hukou leibie* was classified as the “agricultural” (*nongmin*) and the “non-agricultural” (*fei nongmin*) *hukou*. It is the *hukou leibie* that fundamentally illustrates institutionalized unevenness in social welfare provision: a citizen’s entitlement to state-subsidized food grain (called “commodity grain”) and other social benefits was contingent on his/her *hukou* status. Table 4.1 highlights how holders of agricultural *hukou* were treated vis-à-vis those holding non-agricultural *hukous* in the pre-reform period.
Table 4.1 Differential treatment of hukou holders, 1958-1976*

<table>
<thead>
<tr>
<th>Social benefits</th>
<th>Agricultural</th>
<th>Non-agricultural</th>
</tr>
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| Food supplies     | • Food expected to be self-grown on ‘growing land’ (gengdi) allocated to each collective  
|                   | • No guaranteed supplies except in the case of natural disasters              | • Staples offered through state-approved retail outlets; prices set by the state at rates commensurate with wages  
|                   |                                                                              | • Permitted consumption levels connected to occupation & level of the city in the spatial hierarchy |
| Income            | • Income paid in kind and in cash; directly related to the agricultural harvest season(s)  
|                   | • Varied according to productivity, fiscal injection into agricultural production, and state purchasing prices | • Income paid by month in cash  
|                   |                                                                              | • Low levels (relative to prices of consumer goods) but guaranteed  
|                   |                                                                              | • Varied according to industrial activity and relative importance of the work unit (danwei) to the national system of production. Most work units were SOEs, but could also be non-economic state agencies like the military and police |
| Housing           | • Rural residents expected to build their own houses  
|                   | • Land on which residences were built (zaijidi) was (and remains) collectively-owned | • Urban housing owned by the state or collectives; commonly under the purview of state employers (i.e. SOEs)  
|                   |                                                                              | • Rents are collected at nominal rates |
| Medical & pension | • Medical insurance very limited, if available  
|                   | • No pension scheme for elderly; care was the responsibility of the household | • Health insurance and pension offered by SOEs or other state agencies  
|                   |                                                                              | • Degree of security varied according to the types of enterprises or state agencies |

Source: Author’s formulation.
* Two categories – housing and medical insurance and pensions – remain in force today.

The hukou institution aimed to achieve three broad objectives, namely migration control, resource distribution and surveillance of targeted populations. One of the main drivers of the policy, Luo Ruiqing of Public Security Bureau, argued that it was to “stop the population in rural areas from blindly moving to cities”13. It was moot whether it had any legal basis at the time, as the draft Constitution of 1949 (gongtong gangling) and 1954 Constitution both guaranteed “freedom of residence and movement”. Until 1975, when this clause was removed, the hukou institution overtly contradicted the Constitution. For the majority of the Chinese population, however, the legality of the institution did not matter – geography just suddenly became destiny.
Of the three broad objectives of the hukou institution mentioned above, migration control and resource distribution directly undergird the capital accumulation projects of the CPC and are given focus in this section. The third objective remains very important today, to be sure, but it does not relate directly to the analytical focus. In addition, the objective of foregrounding the two objectives is not to evaluate the legitimacy of the hukou institution; that the institution had generated much social discontent for decades and had come under strong pressures for change has been well-researched (see, e.g. Chan and Buckingham, 2008). Such was the severity of the social strain, current Chinese Premier Li Keqiang wrote a paper two decades ago calling for the need to evaluate the ‘encumbrance’ of the institution (see Li, 1991). Removing this ‘encumbrance’, however, is still not a national possibility. As the most recent round of reforms in Chongqing demonstrate, the institution has generated its own regulatory logics that benefit specific interest groups (most of which are linked to the CPC, but arguably also transnational capital), so much so that removing it would be tantamount to removing a primary source of economic competitive advantage. The goal of the discussion in this section is thus more specific: it aims to explain the function of the hukou institution in state-driven capital accumulation.

Specifically, demographic immobilization constituted a spatial logic of regulation that allowed economic production to remain in place. Rural residents were largely permitted to move only within the communes, while movements of urban residents out of the cities required ‘recommendation letters’ (jieshao xing) from their respective ‘work units’ (danweis), which stated clearly the purpose and destination of travel. The letters would be shown to the police and finally at the receiving unit. The overarching goal of such strict mobility regulation was to create the smooth functioning of a geographically-bifurcated and centrally-planned economic system modeled after the Soviet Union. It did so through generating three incremental impacts. First, the newly-formed People’s Communes and newly-nationalized industrial work units were consolidated by literally keeping populations in their place; second, it precluded the formation of autonomous ‘price signals’ for labor power; labor power could not move to locations that
offered the highest wages, while employers could not use wages to attract their desired workers. While not economic efficient, this enforced and predetermined spatial division of labor made it easier for senior policymakers to know what was going on at the local level. Finally, it enabled the actualization of what was known as the ‘price scissors effect’ (jiage jiandaocha). As will be explained further in Chapter 5, this second objective is the primary reason why the hukou institution was not abolished even as post-Mao reforms entered its fourth decade.

With a geographically-segregated demographic structure in place, the generation of the price-scissors effect was a straightforward process. Capital-intensive heavy industries that did not require a large labor power support base were located in the cities. To ensure these industries could receive a steady stream of funds and/or raw materials, surplus laborers were immobilized in the rural areas. This thus gave rise to large-scale collectivization and the eventual institution of the People’s Communes (ref. section 4.3). Under the ‘unified purchase and sale’ (tonggou tongxiao) system, the CPC instituted a monopsony through which it could buy agricultural products at very low prices. The products were then used to sustain workers in the cities and/or used as raw materials in industrial production. This approach kept down the costs of paying industrial workers and the costs of raw materials.

At the same time, the state, acting as a monopolistic supplier, generated high profits by raising the prices of industrial products (e.g. machines, chemical fertilizers, textiles, etc.) that would then be re-sold to the communes. By accepting state-suppressed prices for their agricultural products and paying higher prices for goods produced by urban-based industries, peasants were effectively subsidizing national-scale industrialization in China. According to observations by Li Changping, a renown specialist on agricultural issues in China, the state-driven industrialization project effectively meant re-instituting a system of involutionary expropriation (cf. section 4.2):

The acceleration of national industrialization quickly led to a dependence on the institutions of absolute centralization and high-level planning that expropriated peasants – in an involutionary fashion [neijuanhua], they triggered primitive accumulation and enabled state capitalism to complete its industrialization. Peasants were forced to lose their individual autonomy during the process of national industrialization, they became tools of nationalized industrialization. (Li, 2008: author’s translation)
And, as Li adds, these ‘tools’ served the nationalized industrialization project well:

In not too long a period, the ‘price scissors’ became a major achievement of industrialization, China developed a complete and autonomous industrial system, agricultural system, national defense system, educational system, cultural system etc., it even recovered its place in the UN. The nature of and right to national autonomy was fully realized, and the history of colonization underwent a fundamental change.

To the Mao administration, the “fundamental change” generated by “primitive accumulation” did not mean the ‘price scissors effect’ would necessarily be detrimental to the country. Quite the contrary, and this point was emphasized in 1957 as Mao’s view of Stalinism appeared to waver, the capital accumulation process was supposed to differ from that instituted in the Soviet Union:

Our mass grain purchases are based on normal prices, the country benefits very little from farmers’ exchange of agricultural goods with industrial goods. We do not have the institutional system of compulsory sale (yiwu xiaoshou zhi). Unlike the Soviet Union, which widens the price scissors, we aim to narrow the price-sciences pertaining to the exchange of agricultural goods. Our policy is greatly different from those of the Soviet Union. (Mao, 1977: 336; author’s translation).

The Soviet solution is to hard-press the farmers, they implemented the so-called compulsory sale institution and other solutions and extracted too much of what farmers produced, they also gave too low prices. Their way of accumulating finance strongly damaged the enthusiasm of the farmers. You want a hen to lay eggs, yet refuse to feed it with grain, you want horses to run well, yet refuse to let them graze, where on earth is there such logic? (Mao, 1977: 274; author’s translation)

But what logic of capital accumulation that emerged throughout Mao’s reign was basically a carbon copy of the Soviet model in radicalism and possibly worse than Soviet results in terms of social impact. In economic-geographical terms, the process was characterized by “industrialization without urbanization”. To Li Changping, this ‘primitive’ capital accumulation process was predicated on and reproduced a form of internal colonization. Driven by the two national-scale spatial projects of People’s Communes and the hukou institution, the reproduction of colonization within Chinese state spatiality precluded peasants from enjoying their desired ‘four big freedoms’ (cf. Deng Zihui’s comment, quoted in section 4.2):

This manner of sacrificing peasants’ autonomy in exchange for national autonomy should, in Mao’s initial state-building thoughts, have ended in the 1960s. It should have evolved from ‘peasant supporting industrialization’ (yinong bugong) to ‘industrialization supporting peasants’ (yigong bunong). Yet up to the time of Mao’s passing, the industrialization strategy of expropriating peasants had not changed. Industrialization ultimately met the passive resistance of the peasants – they expended labor but not vigor, lacked creativity and efficiency, and ultimately led to the ineffectiveness of the People’s Communes institution. The eventual outcome
was the inability of industrial goods to be exchanged for goods of good quality from the countryside, leading to a crisis of national industrialization... The failure of industrialization between 1949-1978 was practically a failure of a developmental trajectory based on the internal colonization of peasants. (Li, 2008; author’s translation)

Li is spot on in his assessment that the *hukou* system triggered the “internal colonization of peasants”. It is certainly also true that the expropriatory characteristic of the ‘price-scissors effect’ produced a state of rural involution. Whether this “internal colonization” led to a “failure” in the politico-economic development of China deserves evaluation, however. Scholars within China have shown empirically that this ‘involutionary’ mode of capital accumulation – which arguably kept peasants at standards of living not surpassing those experienced prior to the 1949 revolution – had generated tremendous surplus value for the Chinese state (cf. Kueh, 2006). Niu (2002) puts the expropriated amount at 700 billion *yuan*, while Feng and Li (1993) calculate that the amount expropriated from 1952 to 1990 came up to a staggering 1.16 trillion *yuan* (US$386 billion, using the average exchange rate of US$1: 3 *yuan* over the same period); the latter figure comprises an average of 33% of China’s annual financial accumulation in the same time period. To put this figure in perspective, the average price of a book in China was around 2 *yuan* in 1980; 700 billion *yuan* would be equivalent to the total value of China’s SOEs in 1984. These findings contradict Karshenas’ (1995) influential argument that agricultural surplus flows – defined as positive net savings – to the cities in China were minimum (Karshenas did not take into account net food output surplus and state-mandated demand in agricultural sectors for industrial goods manufactured by SOEs in the cities). The crucial question for research on contemporary socioeconomic regulation in China, then, is whether the ‘price scissors effect’ had been repurposed rather than jettisoned in the post-Mao era (see Chapter 5).
Figure 4.2 Absolute and nett surplus* extraction from rural industries (nominal yuan)

*Nett surplus refers to the value of absolute surplus less fiscal redistribution into agricultural development.
Source: Calculations by Feng and Li (1993: 63); author’s graphical illustration.

As Niu (2002) and Du and Chen (2006) reveal, this extractive capacity extended well into the post-Mao era. Between 1990 and 1998, the ‘price scissors’ approach to capital accumulation became transposed through new financial and fiscal channels; the outcome was the transference of 1.92 trillion yuan from the rural agricultural sector to the urban-based state industrial sectors. The point that the price-scissors effect continued to be generated two decades into Deng’s reforms strongly suggests why the hukou system was not simply abolished after 1980: it was an economic-geographical tool deemed by the CPC to be integral to the Chinese model of state-led capital accumulation. Underlying these varying figures, one conclusion can be drawn: without “internal colonization”, there would not be any basis for Chinese SOEs or rural collectives to undergo the ‘miracle’-inducing reforms in the 1980s. There would not be a strong central bank capable of creating a state-dominated financial structure (see Chapter 5 for overview, and Chapter 7 for an elaborate discussion of experimental financial reforms in Hengqin and Qianhai). There would also not be a large, low-cost industrial
reserve army that could be used to drive urban-based industrialization in the coastal city-regions since the 1990s. This is the latent – and arguably most agonizing – contradiction of the China ‘growth miracle’ as the world knows it today.

To grasp the underlying logic of and limits to this extractive institution, it would be useful to understand its position within China’s geographically-insulated and state-driven system of capital accumulation during the Mao-era. While a clear objective of the communes was to generate economic surpluses for the state, it did so on the back of an immobilized rural labor power. Regulated by the exclusive logics of the hukou system, surplus agricultural labor, if and when they exist, could be geographically absorbed on a quasi-permanent basis without impacting industrial production in the cities. Even when crises emerged (ref. Box 4.2), demographic controls ensured any social instability was contained within the communes. In other words, the hukou system arguably enabled any form of devaluation associated with the state-driven economic projects (e.g. Great Leap Forward) or political campaigns (e.g. Cultural Revolution) to be contained in space. This is the interlocking regulatory logic of the People’s Communes, the hukou institution and the price scissors accumulation approach that enabled the Mao administration to fortify the structural coherence of the newly-formed national political economy. And it was on the basis of this coherence that Deng and his successors were able to launch successive series of policy experimentation through state rescaling.

**Box 4.2 Crisis diversion, or mere deferral? Two attempts to sidestep state involution during the Mao-era**

Right after the Great Leap Forward campaign (1958-1960), senior Chinese policymakers proposed a series of economic reform measures. The most important proposed measure was to re-energize agricultural production through scaling-down production within the People’s Commune. There were discussions on instituting a small-scale household-contracting system (*baochan daohu*), in which production quotas would be allocated to individual households. So long as these households meet the quotas, further surpluses could be kept for private consumption. This household contracting approach was strongly advocated by the Rural Commission leader Deng Zihui – as mentioned earlier, castigated as a ‘small footed woman’ for holding these beliefs in the 1950s – and received the support of Deng Xiaoping, Chen Yun (then in charge of finance) and Li Fuchun (then in charge of economic planning).

It appeared that introducing production incentives to the household level would overcome the involutionary stasis within the communes and increase agricultural output.
Mao appeared to go along with the recommendations of reforms in 1962 and 1963. But he launched an about-turn in 1964, claiming China was under serious geopolitical threat and needed to protect its heavy industries. As such, he continued to press for non-agricultural development, namely infrastructural construction in the western interior and the transference of heavy industries into the interior. This is known as the 'Third Front' construction (da sanxian jianshe). Quite where potential geopolitical crises stood, in terms of policy priority, vis-à-vis the actually-existing starvations in the communes remains unclear, but the 'Third Front' construction effectively halted the reformers’ proposals and allowed Mao to set the stage for a new round of crisis-diversion – the Cultural Revolution.

Launched in 1966, the Cultural Revolution was Mao’s attempt to purge ‘counter-revolutionaries’ who exhibited sympathies towards autonomous production. Liu Shaoqi and Deng Xiaoping were castigated as ‘China’s No. 1 and No. 2 Khruschev’ and the top two ‘capitalist roaders’ (zouzipai). Many cadres who exhibited support for Liu and Deng were also targeted and purged. According to an authoritative three-volume study The Origins of the Cultural Revolution by Roderick MacFarquhar (published between 1974 and 1977), the Cultural Revolution could not simply be attributed to a moment of ‘error’ by Mao and his closest allies (called ‘The Gang of Four’) in 1966. Rather, Mao’s decision originated with his critique of Deng Zihui in the mid-1950s.

The incident launched a debate among senior party officials regarding the speed at which ‘socialist construction’ should be implemented (ref. underlying intra-party disagreements over the role of private production in Box 1). This debate eventually triggered the Great Leap Forward three years later, the dismal failure of which fueled Mao’s distrust of the whole party apparatus led by Liu Shaoqi. That in turn formed the underpinnings of the Cultural Revolution. Through MacFarquhar’s study, it could be inferred that Mao never intended to support any proposed reforms in the early 1960s; the emergence of concrete geopolitical threats allowed him to formulate a ‘Third Front’ construction project that sidestepped attempts at economic recovery; and the Cultural Revolution jump-started successive rounds of political movements aimed at removing ‘class enemies’. If there was a practice in which he was true to his words, it was this: Mao never forgot class struggle.

Source: Author’s compilation.

4.4 Conclusion

“In a period within which capitalism has not been eradicated, absolute egalitarianism is only the fantasy of peasants and the petit bourgeoisie. Even in a socialist society, the distribution of materials is to be determined by the principle of “reward according to labor” and the specific needs of the work. There is no so-called absolute equality.” – Mao Zedong, December 1929 (Mao, 1993b: 83-84; author’s translation)

China as we know it today underwent a series of geographical reconfigurations after 1949. This chapter has delineated three constitutive policies of the Mao-era that established specific spatial logics of socioeconomic regulation. These policies were, namely, the peasant-led rebellions against landlords, which culminated in the 1950 Land Reform Act (more details of the Act in Table 5.1, Chapter 5); the collectivization of landownership and economic production in the countryside, which led to the formation of the People’s Communes in 1958; and the
geographical segregation of Chinese spatiality – and correspondingly the Chinese populace – into ‘agricultural’ and ‘non-agricultural’ economic sectors through the hukou institution. The overarching objective of the analysis is not to solely revisit and review China’s nascent state formation process (though that is important in itself): it is to ascertain the relevance of the spatial logics of this process for contemporary theorizations of Chinese state evolution. Not content to simply ‘let history judge’ this evolution, as if history is and can be objective in itself, the chapter focused on and foregrounded geography as an effervescent and politicized element in the process of Chinese state building.

The three policies presented in this chapter are conceptualized as constitutive expressions of state formation. Taken together, these policies produced localized logics of socioeconomic regulation that enabled the CPC consolidate its political control at the national scale and launch, at the same time, the twin processes of primitive accumulation and national industrialization. With reference to section 2.3.2, the analysis demonstrates how the development of Chinese state spatiality during the Mao-era was a highly politicized process. This phenomenon corresponds with Philip Huang’s (1995) contention that the CPC-led ‘revolution’ did not conclude with the CPC’s military victory in 1949. Rather, revolution took on new forms across the newly-formed state space, in which the CPC prioritized the ideology of eradicating private production (and its associated exploitations) over concrete economic well-being. Specifically, after peasants were mobilized to overthrow the landlords, they were re-mobilized to launch the 1958 ‘socialist transformation’ and then the Cultural Revolution in 1966.

Undergirding this constant political mobilization in the rural hinterland was the institutionalization of caste-like social relations within the communes and between the ‘agricultural’ and ‘non-agricultural’ areas. Within the communes, class relations were concretized; rural and urban residents similarly became immutable classes. What this phenomenon shows, then, is that socio-spatial egalitarianism in Mao-era China was never an empirical fact (cf. Chapter 2). As the subsequent chapters will show, post-Mao regimes could only geographically reconfigure – not remove – instituted uneven development across China.
Of these two forms of relations, class relations have faded into the background today while urban-rural distinctions remain as, if not more, pronounced (ref. Chapter 5 and 9). For this reason, the transition from the Mao-era to Deng's economic reforms on and after 1978 was never a radical temporal break. Rather, the political economy Deng inherited comprised the *interlocking* regulatory logics of the three policies presented in this chapter, logics that were never abandoned in full subsequently. The effects and limitations of these three policies are summarized in Table 4.2.
Table 4.2 Three major spatial reconfiguration policies of the Mao-era (1949-1976)

<table>
<thead>
<tr>
<th>State spatial project</th>
<th>Impact on inherited spatial regulatory logics</th>
<th>Emergent gaps that created pressures for state spatial reconfiguration in the post-Mao era</th>
</tr>
</thead>
<tbody>
<tr>
<td>National scale land reforms, 1946-1952</td>
<td>• Foundational impact</td>
<td>• Peasants’ newfound freedom to manage their land was accompanied by a freedom to be exploited again</td>
</tr>
<tr>
<td></td>
<td>• Landlords vilified as ‘class enemies’, while poor &amp; middle peasants were redistributed land</td>
<td>• Left open the possibility of re-emergent exploitation &amp; socio-spatial polarization: some sought to sell off the land for immediate cash benefits, directly negating the intended impact of land redistribution</td>
</tr>
<tr>
<td></td>
<td>• Individual peasants nominally freed from exploitation</td>
<td>• Peasants with new land to launch their production had no further incentive to stay organized and extend the revolution; this encumbered Mao’s plan to emulate Stalin’s policies</td>
</tr>
<tr>
<td>Large-scale collectivization &amp; formation of urban work units (danweis), 1953-1958</td>
<td>• Configurative &amp; consolidatory impact</td>
<td>• Impact of collectivization undermined by the ambitious but impractical Great Leap Forward industrialization strategy (1958-60)</td>
</tr>
<tr>
<td></td>
<td>• All land ownership ‘scaled up’ to commune (in the countryside) or state ownership (in the cities) to prevent new wave of landlordism</td>
<td>• Uneven development did not disappear, but took the form of complex intra-commune or work unit stratification</td>
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<td></td>
<td>• Commune government would oversee all aspects of socioeconomic life in the countryside, as would the management of industrial work units (danwei) in the cities; the goals of these local rule regimes were in turn linked to targets set by the central planning unit</td>
<td>• Stratification in turn impacted peasant/worker productivity in different ways, leading to significant unevenness in the abilities of communes/work units to meet national economic quotas</td>
</tr>
<tr>
<td></td>
<td>• Collectivization meant peasants and urban workers could be kept in a state of ‘permanent revolution’</td>
<td>• A stratified mode of production was contingent on permanent residence, a contingency met by the institutionalized restriction of population flows, which in turn generated significant inflexibility (ref. below)</td>
</tr>
<tr>
<td></td>
<td>• From one geographical angle, ‘new China’ looked like a ‘centrally-localized’ amalgam of socioeconomic units, with no discernible uneven economic-geographical development</td>
<td></td>
</tr>
<tr>
<td>Restriction of population flows through hukou institution, 1955 to 1958</td>
<td>• Consolidatory impact</td>
<td>• If, under a system of free labor movement, capitalists could shape uneven development by demanding labor power to be concentrated in specific locations, the hukou system, by virtue of tying people to place, made uneven development permanent</td>
</tr>
<tr>
<td></td>
<td>• Apart from permitted circumstances (moving to cities for education, or to join work units in other provinces), geography was destiny for most Chinese citizens</td>
<td>• This permanence became an economic inefficiency at different scales: locally, it meant people had to be taken care of, regardless of economic contributions, while across the country it inhibited flexible transfers of labor power to support geographically-specific industrial projects</td>
</tr>
<tr>
<td></td>
<td>• Fundamental to the generation of the ‘price scissors effect’</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author’s formulation.
From the examination of these logics in this chapter, two contributions to the analysis of reforms in the post-Mao era are presented. First, if Mao had correctly attributed revolutionary causality to the ‘poverty’ (qiong) and ‘blankness’ (bai) of Chinese socio-spatial formations, the precondition of this causal power cannot be overlooked: indeed, the ‘blankness’ Mao saw in 1958 had been bleached by the blood of the pinnongs who participated in the local-scale “reigns of terror”. It is clear, as such, that Chinese economic nationalism was not an organic, nationwide occurrence; it was systematically produced through the targeted reconfiguration of historically-entrenched socio-spatial formations, catalyzed by anti-colonialism and, with immense irony, anti-statism. The socially-transformative effect of the land reforms, nominally achieved in 1952, provided a geographical foundation for the CPC’s state construction projects: the collectivization of socioeconomic life through the People’s Communes and the control of population flows through the hukou institution (see Table 2.1).

Of theoretical significance is the way the nationalization process reversed the cause-effect relationship portrayed by Mao: it was the pre-1949 peasant revolution that triggered the socio-spatial ‘blankness’, or what is known colloquially as a ‘reshuffling of cards’ (chongxin xipai), not the other way round. This perceived geographical-historical blank slate in turn impelled the CPC to reconfigure the economic mode of production through the enforced collectivization of land and other means of production between 1953 and 1958. Through reducing disparate socio-economies to relatively isolated regulatory units such as the communes or urban danweis, proactive spatial reconfiguration enhanced the ability of the CPC to preempt or suppress subsequent socio-spatial revolutions (as discussed in section 4.2). It is thus clear that space is an active element that determines the ruling capacity of the Chinese central government vis-à-vis its local counterparts since the founding of ‘new China’. And this logic will be re-emphasized through the rescaling of “nationally strategic new areas” in the contemporary conjuncture (see Chapters 6 to 9).

Second, this chapter foregrounds the fluid notion and nature of ‘egalitarianism’ (pingjun zhuyi) in the logic of socioeconomic regulation in post-1949 China. A closer analysis of the
buildup to the land reforms reveal what the CPC expected of the peasants was a *willingness* to rebel, *not* egalitarianism per se (ref. section 4.2). As the discussion has shown, ‘egalitarianism’ took on different forms in the People’s Communes: redistributive mechanisms were launched in tandem with the pre-determination of ‘class enemies’. Ironically, the very existence of the communes was at once an outcome and a driver of institutionalized uneven development (undergirded by the *hukou* system). Representing the rural side of the CPC’s still-existing, Lenin-inspired ‘line of demarcation’, the communes effectively developed into quasi-autonomous socioeconomic geographies with their own regulatory logics (cf. Donnithorne, 1972; Friedman, 1985; Whyte, 2005; ref. Chapter 2). It is thus apparent that egalitarianism was (and remains) a fluid concept: it mutated in tandem with the proactive reconfiguration of Chinese state space. As Chapter 5 will elaborate, as Deng and his successors increasingly prioritized coastal city-regions as sites *of* for capital accumulation, there would be no “fantasy” of “absolute egalitarianism” (cf. Mao, 1993b; Kraus, 1976; Whyte, 2005).

For this reason, it is important that economic-geographical research on China devote more attention to how different spatial logics of socioeconomic regulation interact with one another over time. Concomitantly, there is a paucity of research on the fluid ‘egalitarian’ philosophy that putatively undergirds economic development across China. As the analysis in this chapter demonstrates, it is erroneous to claim that policymakers prior to 1978 were inherently focused on producing socio-spatial egalitarianism while post-1978 reforms were oriented towards enhancing economic efficiency (cf. Chapter 2; Whyte, 2010). Rather, the uneven development generated by these three projects provided the platform as well as the impetus for Deng Xiaoping to launch his ‘opening up’ reforms. Specifically Deng could launch targeted reforms aimed at global economic integration while launching reforms along a parallel track across the rural hinterland (where the majority of the population resided in 1978). This two-pronged approach in turn generates a conceptually-significant question: could post-Mao China ease slowly into the global economy *without* the foundational and consolidatory effects of the three aforementioned policies? Chapter 5 will address this question in elaborate detail.
Notes

1 Geographical-historical research by William Skinner (1977) shows that 19th-century China was constituted by a set of nine ‘physiographic macroregions’. China was neither a single national economic system nor a set of separate provincial economies. Instead, it consisted of a small number of ‘macroregions’ of trade, commerce, and population flows, linked by water transport and internally differentiated into core and periphery. As this chapter will show, the KMT attempted to reconfigure these ‘macroregions’ into a coherent state space, but ultimately it was the CPC that instituted and then reconfigured Chinese state space during and after 1949. Macro-regional differentiation would be further altered by the Third Front movement of 1964 (ref. section section 4.3), the ‘ladder step’ developmental approach of the early 1980s and the current four ‘macro-regional’ classification (ref. Chapter 5).

2 To be sure, surplus has been extracted from agriculture within a market system through unequal exchange as well as through state policies in other developing countries like Thailand and the Philippines. In this sense, land nationalization is just one of a variety of methods that have historically been used to extract surplus from rural producers and redistribute it to the city. Yet absolute control over land was particular vital in the Chinese context for two reasons. One, it enabled the CPC to dictate the allocation of economic resources and concentration of labor power. Two, the Party could directly reap the benefits of the surplus through controlled allocation of economic resources and in turn reproduce itself. These interrelated reasons are why land nationalization was fundamental to the consolidation of CPC political power and why it remains technically in place today.

3 Mao’s chosen successor, Hua Guofeng was leader of the CPC between 1976 and 1978. He wanted to extend Mao’s political visions, but was out-maneuvered within two years by the much-stronger Deng faction. Despite this political struggle, Hua remained in the party and was treated cordially by Deng and subsequent Chinese leaders Jiang Zemin and Hu Jintao.

4 Interestingly, this phenomenon of clandestine predatory behavior by local officials became a major problem again following the dissolution of the People’s Communes in 1984 and the fiscal reforms of 1994 (see next chapter). As Walker (2006) shows, rural exploitation remains a contentious issue today.

5 Till today, the term “emancipate” (jiefang) is still used to describe the revolutionary purpose.

6 The Chinese-language title of this book, published in 1955, is Zhongguo Nongcun de Shehuizhuyi Gaochao. It marked the CPC’s attempt to shape the Chinese agricultural economy according to its Stalinistic socialist image.

7 The original meaning of dagong wusi is “fair and unbiased”. Applied to the formation of advanced cooperatives, the term becomes ironic: whilst literally becoming ‘dagong’ (i.e. the enlargement of the public sphere) and, in turn, removing private ownership (literally engendering an economy that is ‘wusi’, or ‘without private intentions’), the fact that it had to be effected through authoritarian means meant it was hardly “fair and unbiased”.

8 For the full text of this injunction (in Mandarin), see People’s Daily (1 August 2003).

9 The program was to accelerate the pace of industrialization by making use of cheap and abundant labor in the countryside while sidestepping the importation of machinery.

10 While not the focus of this chapter, social stratification generated its own dynamics in the cities during the Mao era (see Zhou et al, 1996).

11 This term, taken also to mean the ‘proletariat’, remains in use by the Xi Jinping government.

12 The law requires every Chinese citizen to be officially and constantly registered with the hukou authority since birth. This registration was to be the legal basis for personal identification. The categories of non-agricultural (urban) or agricultural (rural), the legal address and location, affiliation (employment), and a host of other personal and family information, including religious belief and physical features, are documented and verified to become the person’s permanent hukou record. The hukou institution, still fully functioning today, comprehensively collects data on everyone to identify and, more importantly for the purpose of this dissertation, to stratify.

13 Prior to 1958, the CPC began calling rural migrants into the cities ‘blind flows’ (mangliu); the implication is the rural migrants had no consciousness of ‘reality’ and were just ‘blindly’ going along with the ‘flow’. It is intriguing how, in the contemporary context where almost a seventh of the population constitutes ‘floating population’ (i.e. migrants in locations not of their hukou registration), seemingly incessant flows of rural populations into cities are no longer termed as ‘blind flows’. By implication, then, the contemporary flows are calculated decisions, rationally responding to price signals in the cities. Yet one thing remains unchanged: whether ‘blind’ or rational, the inflows of rural migrants would not be entitled to social benefits.
Chapter 5
Post-Mao state spatiality in/of China: continuities and changes

5.1 Introduction

If the three major policies introduced in Chapter 4 were to lay the foundation for the consolidation of political control and state-driven capital accumulation, the spatial strategies introduced during and after the Deng Xiaoping era arguably constituted the scalar reconfiguration of this consolidated power. The concomitant change in regulatory relations between central and local governments in turn unleashed what many consider to be China’s economic growth ‘miracle’. As discussed in Chapters 1 and 2, this particular miracle is an outcome of interactions between post-Mao policy experimentation and Mao-era logics of socioeconomic regulation. A dynamic approach to reconfigure economic geographies was thus integral to maintaining nationwide political stability. With reference to the centralization-decentralization debate raised in Chapter 2, it was in the decade of reforms (the 1980s) that significant economic gains through quasi-independent production could be discerned. As Deng proclaimed in his famous ‘looking ahead’ speech in 1978: “Once a production brigade has the management autonomy, they have to rack their brains and go through sleepless nights if a land stays barren or a pool of water is not used to rear animals. Once several hundred firms and several million production brigades all rack their brains, how much wealth can be increased!” (Deng, 1994: 146, author’s translation).

Deng’s emphasis on “management autonomy” arguably undergirded the rescaling rationale in the first decade of reforms. For Hinton (1990) and Kelliher (1992), this first decade of reforms marked the beginning of ‘rural privatization’ and ‘peasant activism’, while Oi (1992) famously theorized how decentralization produced a form of business-like approach to regulation known as ‘local state corporatism’ (ref. Chapter 2). Researching the evolution of central-local relations in the 1980s, Oi (1992) began to see local governments behaving increasingly like corporate entities, all “racking their brains”, as Deng wanted them, to generate capital surpluses in their jurisdictional territories. Social welfare – where it existed in the
People’s Communes – was correspondingly cut as the communes dissolved in 1984. The picture painted of the 1980s was thus one of state ‘retreat’ from the economy; the initial rounds of reforms seemingly expressed a significant rupture from the Mao-era. Such is the optimism of the time in and outside China on Deng’s reforms in the 1980s, Hinton (1990: 11-12) observes, there was a tendency to overlook the problems emerging during the same period:

> Article after article begs the reader to understand that China is undergoing a great transformation, that good results are in the making but can never be achieved without hardship and sacrifice, that difficulties and reversals are inevitable and may last a long time. The authors of these articles express few signs of contrition, few hints that there may be anything fundamentally wrong with the path that has been chosen. All the rising contradictions, all the accumulating costs are written off as "transitional," troubles that can and will be exorcized in time…Thus the call, as problems mount, is for more, deeper, faster change.

So “more, deeper, faster change” took place in the 1990s and 2000s, as did the growth of socio-spatial tensions (ref. Table 1.1, Chapter 1). Through examining the continuities and changes in a series of experimental projects launched by Deng and his successors Jiang Zemin and Hu Jintao, this chapter offers a nuanced perspective on the notion of epochal change after 1978. From the present vantage point, it appears that “more, deeper, faster change” – all of which occurred without truly rupturing the socio-spatial configurations instituted in the Mao-era – ironically reinforced the importance of central coordination (ref. discussion on ‘true’ central planning in section 10.3, Chapter 10). This importance is most recently re-expressed in the demarcation of four “nationally strategic new areas” after the 2008 global financial crisis (cf. Table 1.2, Chapter 1).

There are two angles from which to determine whether socioeconomic reforms in the post-Mao era marked a radical departure from Maoist regulatory logics. At one level, Deng’s policies arguably picked up from where Liu Shaoqi left off in the early 1960s (ref. Box 4.1, Chapter 4): his underlying rescaling rationale reflected a Leninistic principle that spaces be given to private enterprise (and by extension some degree of freedom for individuals to set prices) rather than the totalizing mode of collectivization favored by Stalin and Mao (cf. Li, 2006). It was for this reason that Deng almost immediately allowed increased autonomy in agricultural production, and within five years of reforms, the People’s Communes were
Dissolved. Deng’s definition of “economic work” (jingji gongzuo) also extended to the global economy, hence the experimental strategy to demarcate Special Economic Zones (SEZs) that could embed global circulatory capital.

At another level, however, Deng had to manage the economic geographies – and more specifically, the structure of uneven development – established by the Mao administration. As discussed earlier, the notion that the Mao era constituted a relatively egalitarian economy is now strongly problematized by research on 1) stubborn income and output inequality in subnational ‘cellular economies’ (Chapter 2); and 2) intra-commune social stratification and the ‘price scissors’ approach to capital accumulation (Chapter 4). To move forward, Deng had to decide whether to follow Mao’s footsteps by creating a ‘blank slate’ in order to paint another ‘newest and most beautiful picture’, or to add new layers to Mao’s uncompleted painting. As this chapter will show, Deng opted for the latter. In the same 1978 speech calling for reforms, Deng first acknowledged that Mao-era political foundations were *not* to be altered: “from now on, the political path is already determined, what remains to be seen is whether economic departments can lead” (Deng, 1994: 150, author’s translation). The new regime’s subsequent focus on industrialization along the coast was arguably following an approach originally developed by Mao in April 1956:

About 70 per cent of all our industry, both light and heavy, is to be found in the coastal regions and only 30 percent in the interior. This irrational situation is a product of history. The coastal industrial base must be put to full use, but to even out the distribution of industry as it develops we must strive to promote industry in the interior...However, in recent years we have underestimated coastal industry to some extent and have not given great enough attention to its development. This must change. (Mao, 1999a: 25-26; author’s translation)

Deng followed this injunction to the letter. Change was first instituted in the first four SEZs – Shantou, Shenzhen, Xiamen and Zhuhai – before expanding to 14 other major cities in 1984. As mentioned in Chapter 2, Deng made a political commitment to eventually overturn the “irrational” distribution of industrialization across the country. For this reason, Deng and his successors were not reacting against the economic geographies instituted by the Mao administration; rather, they were facilitating a qualitative shift - giving freer reign to individual production – without drastically dismantling the instituted uneven development favored by the
Mao government. Whether the contemporary round of reforms in the ‘nationally strategic new areas’ would radically alter the Maoist imprints will be explored in Chapters 6, 7, 8 and 9.

This chapter will be divided into four parts. Section 5.2 will examine the rationale of the nationwide re-introduction of household production and the concomitant dissolution of the People’s Communes in 1984. The section explores how Deng, through freeing up urban-rural demographic mobility, inadvertently reproduced, if not enhanced, the extractive capacities of the CPC previously expressed by the ‘price scissors effect’. Section 5.3 then reviews the impacts of the SEZs. These zones are conceptualized not just as spatial strategies, but as the inception of a broader logic of socioeconomic regulation that designated experimental developmental pathways for different city-regions. Key to this section is the connection between agricultural reforms and urban-based industrialization: what were ‘released’ as a result of ‘management autonomy’ in the countryside was not a perpetual increase in output (apart from the first five years of reforms, output levels did not experience sustained surges); the main ‘surge’ that did occur came in the form of cheap labor power. Section 5.4 then delineates a series of multi-provincial regional developmental programs that came after Deng, namely the ‘Great Western Development’ strategy to overcome what was already a clear pattern of uneven development in 1999, and two similar strategies to augment growth in the central and northeastern provinces. It is on the back of these policies, all of which are arguably piled over one another, that the Hu Jintao administration launched the latest and more targeted attempt to develop “nationally strategic new areas”. The emergence of these successive experimental reforms foregrounds perhaps the most significant politico-economic contradiction that powered China’s fast-paced economic growth since 2002: uneven economic-geographical development became at once necessary for the enhancement of place-specific economic competitiveness, often expressed in terms of tax breaks and subsidized services, and a looming threat to social stability. The conceptual contributions of this chapter’s analysis will be discussed in section 5.5.
5.2 Reconfiguring rural production: rationale and ramifications

While depictions of post-1978 economic growth ‘miracle’ in China typically focused on the contributions of ‘opening up’ (and which in turn directs attention to the impacts of foreign capital inflows in the SEZs), the reconfiguration of regulatory relations within the vast rural hinterland arguably proved more significant – at least in the initial decade of reforms – in triggering economic growth. In the first of several instances in the post-Mao era where history seemingly came ‘full circle’, Deng’s approach to overhaul the countryside appeared to echo that advocated by Zhou Enlai in 1949. As it became clear in July 1949 the CPC would win the civil war and re-engage in economic construction, Zhou claimed: “For us to resume production, the first would be to resume agricultural production” (Zhou, 1980a: 361; author’s translation). In December of the same year, Zhou elaborated on the approach that Mao overlooked in the Great Leap Forward industrialization campaign:

> At no time should there be any abolishment or neglect of such a vast agricultural base in the villages…cities cannot be separated from rural villages, they must depend on rural villages; manufacturing industries cannot be separated from agricultural industries, they must base themselves on agricultural industries…Whoever neglects the peasants and agricultural industries, that person would have erred” (Zhou, 1980b: 8-10, author’s translation).

In 1978, Deng appeared to realign his reforms to Zhou’s “rural first, cities subordinate” approach. This strongly suggested that the then subordinate position of rural communes vis-à-vis urban-based industrialization – an approach favored by Mao and his successor, Hua Guofeng – would be reversed (ref. meso-level rescaling, Table 1.3, Chapter 1). The first step towards this realignment was the (re)introduction of what is now known in China as the ‘Household Responsibility System’ (HRS). The HRS began as an experimental project, with proponents proceeding tentatively. Minor management adjustments were made in the collectives while the collective scale of production was kept. Work management and income allocation remained the prerogative of collective leaders. A key feature of this adjustment was the ‘contracting’ of specific tasks to work-groups or individuals with the required skills. The experimental objective of this adjustment was more about testing new modes of remuneration
than about introducing novel production techniques; the process of task-related ‘contracting’ was already evident during the Mao-era, but the Deng government entwined more economic incentives with production outcomes. That was why this policy was called “responsibility institution” (zeren zhi) or, more accurately, “performance based compensation and responsibility system (lianchan zeren zhi)”.

The HRS was particularly welcomed in regions that experienced widespread famine during the Great Leap Forward (see Yang, 1996). Major decollectivization reforms would swiftly follow in 1981. Collective-owned land was divided up among rural households, and the production and distribution of crops became fully delegated to individual families. At the same time, these families were given more leeway to conduct small side businesses (i.e. growing cash crops, sell cooked food, etc.). While families still have to fulfill state quotas, the prices set for the quota amount increased. Even higher prices were set for above-quota sales². By 1984, this new policy basically dissolved the communes and made households the basis – or, in official parlance, the ‘basic accounting unit’ (jiben jiesuan danwei) – of the new system of production. This decollectivization reform was first named ‘large scale division’ (dabaogan), but later it was renamed as “household contract and performance-based compensation and responsibility institution (jiating lianchan chengbao zeren zhi)”, or the HRS in short. This reconfigured system still defines rural economic production in China today.

Yet the meso-scale reconfiguration of regulatory relations – namely, from the commune level to the individual household – did not prove antithetical to the projects and strategies implemented by Mao or Hua. Not “neglecting” the peasants, to re-borrow Zhou Enlai’s term, effectively meant enhancing the extraction of resources from peasants without its Mao-era corollary – socio-spatial involution (cf. section 4.3.2, Chapter 4). During the first decade of reforms, Deng merely reconfigured the conditions that would enhance the ‘price scissors effect’ that Mao instituted on the premise of reinstating the ‘four big freedoms’ (sida ziyou) peasants putatively loved (ref. quote by Deng Zihui, presented in Chapter 4). As the Deng administration expanded its developmental focus to the coastal urban areas in the mid-1980s, the rural
reforms would prove instrumental in creating a new form of state extractive capacity. This process occurred in two ways.

First, inland provinces (or more specifically, their affiliated state-owned enterprises) were instructed to sell primary commodities (e.g. minerals, oil, agricultural produce) at low prices to the coastal provinces. This constituted a ‘scaling up’ of the ‘price scissors effect’ to the inter-provincial level: on top of rural hinterlands supporting the cities, provinces in the western interior had to support industrialization along the coastal seaboard. Second, surplus laborers from the rural hinterland increasingly found themselves displaced from farm work as rural industrialization deepened inequality (Chang, 1993; Rozelle, 1994, 1996). With only their labor power to sell, peasants migrated to the coastal labor markets in exchange for very low wages and often-poor living conditions, while they would pay marked up prices and taxes for the very commodities they manufactured. It is for this reason, as Lee (2001: 232) found through comparing 1997 output data with statistics published in 1982, that “the dominant sources of overall regional inequality in output have shifted from the intraprovincial to interprovincial inequality, from the rural–urban to intrarural inequality, and also from the disparity within the coast to between the coast and the interior.”

The increasingly pronounced intra-rural inequality was arguably exacerbated by a reduction in already-thin redistributive capacities in the rural hinterland. As a senior planner in Beijing puts it, the roll-back of these capacities were correlated to the dismantling of the People’s Communes:

I feel that the people’s communes institution still has its pros when compared to current methods of local governance. The most pronounced characteristic of this institution was the integration of politics and the economy. Be it at level of the commune, the advanced production brigade or the production brigade, the respective leaders were responsible for social administration and economic production, if economic production cannot materialize, neither could social administration. Moreover, those leading cadres must also participate directly in economic production, the commune leader for 200 days, the advanced brigade leader for 300 days. Now the village governments are detached from economic production, how people live and people’s sources of livelihoods are no longer their business, their main role is social administration. (Senior Academic A, Interview, February 2012, Beijing. Author’s translation)

To be sure, the reduction of redistributive benefits was initially offset by rapid output increases that sharply reduced urban-rural income disparities in the first half of the 1980s (ref. Figure 5.1;
cf. Huang, 2010). Ironically, however, this initial success generated the condition for its demise: rural economic growth generated price inflations – and hence growing social instability – in the cities. Because ensuring urban stability was a major policy concern for the CPC since it took power in 1949, it had to do something. A set of urban-biased fiscal and monetary policies were rolled out after 1985 and generated an almost-immediate impact on urban-rural income ratio (ref. Figure 5.1). Yang’s (2002) study found that urban price subsidies totaled 71.2 billion yuan in 1998, which was 7.6 percent of government’s budget. Between 1986 and 1990, state subsidies for urban-based, loss-making SOEs totaled 232.5 billion yuan; the amount between 1991 and 1995 totaled 206.1 billion yuan. Yang (1999) also found that the shares of the budget devoted to cities ranged from 52 percent to 62 percent between 1986 and 1992. In addition to fiscal transfers, the urban state sector received preferential credit allocations that caused redistributions of income in favor of the urban areas. These urban-biased fiscal and monetary policies led to a steady increase in the rural-urban inequality after 1985, which in turn established the platform for post-Mao regimes to reproduce the urban-rural disparities seen only in the most tumultuous moments of the Mao-era. It was arguably because of this urban-oriented about-turn, as Figure 5.1 suggests, that urban-rural income ratios began to rise after 1985.
Figure 5.1 Nominal urban-rural income ratio (rural = 1), 1952-2013

Source: Data between 1952 and 1978 from Statistical Yearbook of China (1992); data between 1979 and 2012 from National Bureau of Statistics (2012). Because of the difference between sources, it is important to note the change between 1978 and 1979 is not reflective of a trend measured using the same variables. 2013 data from Xinhua (20 January 2014). Author’s compilation, calculations and illustration.
### Table 5.1. Overview of major rural land reform policies in post-1949 China

<table>
<thead>
<tr>
<th>Period</th>
<th>Major policies</th>
<th>Impacts of/on inherited logics of socioeconomic regulation</th>
</tr>
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<tbody>
<tr>
<td>Mid-1940s to early 1950s</td>
<td>• May Fourth Directives (1946) • Agrarian Reform Law of the PRC (1950); cf. discussion in Chapter 4</td>
<td>• Disintegrated the exploitative, landlord-driven agricultural production system, within which sharecroppers transfer surplus value, as rental, to landlords</td>
</tr>
<tr>
<td></td>
<td>• First Five-Year Plan (1953-1957) • Commune collectivization drive (1957) (renmin gongshe hua) • Hukou institution (1957)</td>
<td>• Elimination of landlords simultaneously eliminated the ‘state involution’ stasis; paved the way for Soviet-styled state spatial reconfiguration</td>
</tr>
<tr>
<td>Mid to late 1950s</td>
<td>• Disbandment of People’s Commune • Household Responsibility System (1981)</td>
<td>• Focus scaled down to individual households (jiating suoyou, jiating gengzhong); access to land given on the basis of ‘whoever wants to farm has land’ (gengze youqitian)</td>
</tr>
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<td></td>
<td></td>
<td>• Predicated on a socio-spatial contradiction: before previously-oppressed sharecroppers got to enjoy individual ownership of land, the collectivization process effectively ‘scaled up’ ownership to three bureaucratic levels, first to the level of the cooperative (hezushe), then the People’s Commune (renmin gongshe).</td>
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<tr>
<td></td>
<td></td>
<td>• Farmers were expected to work in ‘production brigades’ (shengchan du) rather than as household units in order to improve economies of scale.</td>
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<td></td>
<td></td>
<td>• Land officially dichotomized into ‘rural’ and ‘urban’; citizens were spatialized in the same way through the hukou institution; rural-urban and inter-provincial mobility became strongly reduced.</td>
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<tr>
<td>2000s to the present</td>
<td>• Farmland use rights can be leased, exchanged and/or transferred without affecting original use; offers spatial flexibility to ‘scale’ production inputs (and, by extension, outputs).</td>
<td>• Individual households, in a seeming re-implementation of the household ownership and farming principle, were granted long-term land use rights.</td>
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<td></td>
<td>• Tax cuts or removal aimed at improving private incentives to farm</td>
<td>• In tandem with the reduction of state agricultural crop quotas, the down-scaling of agricultural production boosted output and expanded privately-driven markets in/of agricultural commodities</td>
</tr>
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<td></td>
<td>• Increasingly suggestive of a distinctive neoliberal turn in rural land management.</td>
<td>• Political-geographic control remained centralized: ownership of land remained under state-designated rural collectives, while the central government continued to determine the national-scale agricultural land quota (gengdi hongxian, literally the ‘red line of arable land’), against which other forms of land use are planned.</td>
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<td></td>
<td>• It is ‘distinctive’ because, despite the apparent withdrawal of the state, the emergent market-like practices – and hence underscores – the central government’s political power.</td>
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<td>• Just like how peasants were mobilized as revolutionary agents in the 1920s to 1940s through authorized anarchism, peasants are now mobilized as politico-economic agents through authorized marketization, with the objective of enhancing the exchange value of the rights to – note: not ownership of – rural land use.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Implication of expanded scale of production: a new ‘marketized commune’ system (shichanghua gongshezhi) in the making?</td>
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</tbody>
</table>

**Source:** Author’s compilation from and translation of policy documents (cf. Chapter 4)
Table 5.1 summarizes the evolution of land reforms from the onset of state spatial formation in the mid-1940s to the present. The introduction of market-like regulatory mechanisms in the post-Mao era arguably set in motion the rescaling – rather than a total removal – of the rural extractive capacities (cf. Figure 5.1). Despite re-applying Zhou Enlai’s call to prioritize rural production, Deng similarly opted to build his policies on the spatial logics of socioeconomic regulation established by the Mao administration. His policies thus generated a new economic-geographical contradiction: interior provinces ended up ‘subsidizing’ the industrialization of coastal provinces. In an ironic twist, this new logic of uneven development undergirded China’s economic ‘growth miracle’. This contradictory phenomenon ties in with this dissertation’s emphasis on the tensions between path-dependency and path-generation (cf. Chapter 1): Deng wanted reforms, but only on the premise of adhering to the Four Cardinal Principles (ref. Chapter 2). Bao Tong (2008: n.p.), the former aide of Chinese Premier Zhao Ziyang and a key participant of Deng’s administration for almost a decade, puts Deng’s developmental strategies in perspective:

Deng’s two-sidedness was like a pendulum. One minute he wanted reforms, the next he was resolutely upholding the four basic principles of socialism [i.e. Four Cardinal Principles, cf. Chapter 2]. One minute he wanted to escape from a political dead end, the next he had returned to it. Deng was like that. You could criticize him for logical inconsistency, but you couldn’t say he said one thing and did another. Both his words and his deeds were in earnest. He was a genuine supporter of reforms, and yet also a staunch protector of the very things we were supposed to be reforming.

This assertion of Deng’s “two-sidedness” is underscored by empirical research on the path-dependency of rural reforms in the post-Mao era. Working from a detailed case study of Dahe township in Hebei province, Putterman (1993) found that while higher prices and more flexible resource allocation contributed to increased rural income growth, it “is worth remembering, of course, that other sources of rural growth in the reform era had little if anything to do with reform, and instead reflected continuities with China’s policies of the 1960s and 1970s” (Putterman, 1993: 351). Some of these policies, namely state investment in fertilizer and farm machinery production capacity, the proliferation of tube well irrigation technology, and the development and diffusion of high-yielding seed varieties, along with some of the more labor-
intensive farm capital construction work of the Mao era (such as field terracing and improvement of irrigation and drainage systems), either continued to develop (e.g., greater production and use of fertilizer), or showed continuing payoffs (fructification of collective-era farm capital by reform-enhanced labor effort), in the post-Mao period. In these respects, Putterman (1993: 351) concludes, “the mobilization capacity of the Chinese state continued to stand out.”

A pattern of path-dependency was similarly observed at the macro level. Using a data set that covers a third of China's counties, Bramall (2003) demonstrates that those counties where the industrial base was well-developed at the time of Mao's death grew rapidly over the next two decades, and vice versa. While post-Mao growth was also dependent on the exploitation of newly-mobile labor power (to be elaborated shortly) and foreign capital investments, Bramall (2003, 2007) argued that economic growth in the Deng era bore the imprint of rural industrialization in the Mao era, and that the putative “great divide” of 1978 in fact generated significant path-dependency. Viewed in relation to the discussion on periodization in Chapter 2, this phenomenon further reinforced the argument that, in the midst of driving economic growth through state rescaling, the CPC’s fundamental concern remains keeping intact the unitary political structure produced by the Mao government.

For this reason, Deng’s ‘yellow cat, black cat’ approach to enhancing relations of production was never an economistic process. His regime had to work with or around the regulatory logics of the three Mao-era policies mentioned in Chapter 4, namely the threefold emphases on landownership nationalization, the meso-level separation of demographic control into ‘urban’ and ‘rural’, and, on the basis of this control, the generation of the ‘price scissors effect’ (ref. Chapter 4). Breaking off these legacies too strongly could unsettle the coherent national space held together by the Mao administration. For all his preference for more ‘flexible’ economic reforms, Deng could not countenance the prospect of weakened CPC control. Bao Tong (2008: n.p.) sheds light on Deng’s fundamental concern:

Once you grasp the logic of saving the Party, it is possible to get a basic understanding of Deng
Xiaoping’s logic. Everything he did was done to save the Party. Saving the Party required boosting productivity. So to catch the "mouse" of saving the Party, we needed the "cat" of the market economy. It was for this reason that Deng Xiaoping supported economic reforms with all his might. He deserves to be credited as a supporter of economic reforms, even though he didn't care much for economics and didn't understand the market; and he was their most powerful supporter. However, his goal was still to save the Party, and for that reason he was a fierce protector of Party power and status. Just 18 months after the inception of economic reforms, he was quick to stamp out any small green shoots of "liberalism" in a thorough attack, lest they take root and flourish in a change in climate and strike at the heart of the Party.

Bao’s observation that Deng was fundamentally against political ‘liberalism’ strongly suggests the rural reforms were intended to provide a new economic-geographical platform for the CPC to enhance its control of national economic space. As Figure 4.2 in Chapter 4 has shown, the state benefited significantly from the exponential growth in capital surplus in the first decade of reforms. Sustaining this extractive capacity is arguably why the hukou institution remains in place. Through the debates generated by experimental reforms to abolish the urban-rural “dual structure” in Chongqing, two plausible logics behind the retention of this institution could be discerned (cf. Chapter 9). One, as mentioned briefly in Chapter 2, Deng had no intention to overturn the ‘price scissors effect’ the Mao government painstakingly instituted. On the contrary, the challenge was possibly how to enhance this effect – which would mean augmenting capital accumulation for state-linked institutions without triggering widespread famine à la the Great Leap Forward program or overwhelm the peasants’ desire for some autonomy in socioeconomic (re)production.

Second, as will be discussed in the next section, the retention of the hukou institution would be instrumental for extending the state’s ability to draw on resources (including labor power) from the rural hinterland under conditions of an increasingly open (inter)national economy: it facilitates a seemingly unlimited flow of cheap labor power into the proliferating special economic zones (all of which are based in the coastal city-regions) without creating excessive administrative and financial burdens on their respective governments. As one urban planner emphasized, “to understand spatial planning in China, you have to first ascertain whether this planning is purely economic or administrative” (Interview, Beijing, February 2012). This distinction between the ‘economic’ and the ‘administrative’ opens up a new way of thinking.
about the *hukou* institution as an supply-side economic tool. The sustained categorization of labor power into ‘agricultural’ and ‘non-agricultural’ allows migrant peasant workers to be treated only in “purely economic” ways in industrial spaces (predominantly along the coastal seaboard) where they are not officially registered as residents. In this respect, the *hukou* institution becomes a *function* of the ‘purely economic’ rescaling of Chinese state space: labor geographies could easily be configured without incurring social costs, which in turn enables the Chinese state apparatus to determine costs of production – in particular that of land and labor power – in relation to the demands of global circulatory capital (ref. Puttermann, 1992; Chan, 2010b). This manipulation triggered the Chinese economic ‘growth miracle’, to be sure, but, as shall be discussed in the next section, it produced new policy challenges at the same time.

### 5.3 The (re)turn of coastal bias

Following Deng’s call for reforms in 1978, the economic-geographic expression of China’s industrialization drive gradually took on a coastal bias. As mentioned briefly in Chapter 1, Deng’s decision was guided by what was arguably an experimental approach at the time – the “ladder step” approach (*tidu lilun*). This approach delineated Chinese state spatiality into three economic belts: the eastern (coastal), central, and western. Deng gave one belt (the eastern seaboard) the priority in ascending the development ‘ladder’. He assumed that the fruits of development in the ‘first mover’ belt would diffuse downwards to other rungs of the ladder. It was clearly with this logic in mind that Deng initiated the first regime of predetermined uneven development by allowing foreign capital into four SEZs, all located in China’s southeastern corner: the cities Shenzhen, Zhuhai, Shantou and Xiamen (cf. Fan, 1995; for a review of the initial effects of the approach, see Fan, 1997). 14 other coastal cities were open for selective foreign investments in 1984. In 1987, the newly-rescaled province of Hainan (previously part of Guangdong) was demarcated as the fifth SEZ. Until 1994, preferential fiscal policies were given to selected coastal provinces to accelerate their respective developments (Wei, 1996). In 1990, a decade after experimentation in the SEZs showed positive results,
Deng allowed intensive financial and trading reforms to take place in a nationally-administered city (zhixiashi), Shanghai, through the creation of the Pudong New Area. Figure 5.2 shows the proliferation of city-regional economic zones after the SEZs were formed.

Figure 5.2 Gradual demarcation of experimental urban spaces of/for capital accumulation and social regulation

Amongst the well-documented literature on the SEZs and the subsequent coastal ‘free’ economic spaces, a particular lacuna remains. This is, namely, a critical evaluation of the SEZs as the repurposing of Mao-era spatial logics of socioeconomic regulation. As discussed in Chapter 2, researchers tend to view post-1978 China as emblematic of ‘bottom up’ or ‘decentralized’ governance. However, the connection between rescaling regulatory relations in rural collectives and the production of urban enclaves for transnational capital accumulation were never considered. To plug this lacuna, this chapter argues that, just as Deng’s rural reforms reproduced the uneven spatiality developed by the Mao government, so did his decision to gradually shift his industrialization focus to the coast. In other words, the formation
of SEZs and other subsequent economic zones were never historical ruptures that represented a distinct leap towards a capitalist mode of production; they marked a new layer of regulatory reconfiguration that retained aspects of the inherited economic space – i.e. an economic-geographical strategy that produced coastal city-regions as industrial bases (ref. Figure 5.2; Donnithorne, 1972).

As mentioned in section 5.1, Mao called for building on the more industrialized coastal seaboard in 1956. While the subsequent ‘socialist high tide’ were concerned with enhancing political control, this did not contradict his coastal bias. Neither did his attempts to divert rural crises by shifting industries and infrastructural construction to the interior in the so-called ‘Third Front’ construction of the 1960s (ref. Box 4.2, Chapter 4). Indeed, as Figure 5.3 shows, the major industrial regions (in terms of contribution to GDP) in 1978 were still in provinces with significant colonial (industrializing) influence (namely, Jiangsu, Shandong, Liaoning and Heilongjiang). In other words, despite Mao’s injunction to “promote industry in the interior”, the uneven state spatiality Deng inherited retained a distinct coastal bias (see review in Chapter 2; see Figure 5.3). It was on the basis of this economic-geographical unevenness that foreign capital inflows interacted with the first wave of policy experimentation in the post-Mao era.

The establishment of the four SEZs as new enclaves of transnational capital accumulation were outcomes of inherited pressures at the subnational as well as national scales. To reiterate the argument raised earlier in this section, it was not a sudden moment of rupture. At the national level, Deng had to act to secure more foreign capital because of unprecedented attempts in the early 1970s by Mao Zedong and his successor, Hua Guofeng, to engage advanced capitalist economies. Wen Tiejun, the leading agricultural studies specialist and consultant for the CPC, explains how Mao’s shift in macroeconomic governance – which triggered the importation of capital goods – was to play an important role in Deng’s subsequent strategy to experiment with spatially-selective engagements with foreign capital:

Since the gradual restoration of foreign relations with Europe, the US and Japan from 1972, from then on the importation of facilities from these countries also began, primarily for new projects in light industries, petrochemical industries and agricultural support industries. On one hand, it adjusted the heavy industrial bias formed by Soviet investment in the 1950s. On the other hand,
under the institution where the fiscal budget wholly supported the investments of state-run enterprises, it created a deficit of more than 10 billion yuan [around US$6.7 billion, using official 1978 exchange rate]. This is why Mao felt Deng Xiaoping was a ‘capable man’ (nengren) and proposed bringing him back.

As Wen adds, Mao’s successor Hua Guofeng played a key part in expanding the budget deficit, leaving Deng with a massive gap to fill:

In 1977-78, the central government led by Comrade Hua Guofeng enhanced the importation of foreign capital, he proposed the campaign to develop 100 big projects, this was similar to the launch of 154 big projects during the 1952 First Five-Year Plan, the outcome was also the same: just like the large-scale importation of Soviet facilities in 1958 caused production deficits that became unsustainable in 1960, 20 years later [Hua’s campaign] generated 17 billion yuan in deficit.

The deficit was significant given that the total budget at the time was not even 100 billion yuan. This meant 20% of the budget was deficit expenditures. And as Wen adds, the deficit not only went beyond 18 billion yuan in 1979, the CPC had to spend more due to the Sino-Vietnamese war (Ibid.). Viewed over a five year period, the excess expenditure basically doubled. Wen Tiejun’s explanation underscores a major point in the evaluation of post-Mao changes in developmental orientation: Deng was at once affirming Mao and Hua’s readiness to engage the global capitalist economies and negating their desires to expand industrialization under the umbrella of domestic ‘self-sufficiency’. Clearly, the predominant policy question of the time was how to generate sufficient foreign exchange in order to preclude domestic inflation associated with deficit financing (since the only way to ‘repay’ the deficit, in the absence of issuing bonds, was to print more money). It was at this point, in a development consonant with observations of an economically-weak central government (ref. Chapter 2), that the opportunity to establish Special Economic Zones (SEZs) presented itself ‘from below’. With the goal of reducing budget deficits in mind, Deng made it clear to proponents of the SEZs that “the central government has no money, you develop these [zones] yourselves” (see Box 5.1 below).
<table>
<thead>
<tr>
<th>Time</th>
<th>Development</th>
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</table>
| November 1977       | Deng Xiaoping was alerted to the increasingly serious illegal border-crossing from Shenzhen, a town of under 30,000 people, to then British-governed Hong Kong.  
                        Deng offered a surprisingly pragmatic response: “This is a problem to do with our policies” and “It [the illegal border-crossing] is not something our armed forces can easily control”.  
                        Marked the beginning of a national review of China’s geo-economic insulation. |
| January 1979        | In a visit to his hometown Shantou, Guangdong Party Secretary Wu Nansheng was perturbed by the poor living conditions in the city. Reflecting on how to enhance these living conditions, a Singaporean friend suggested: “Do you dare to create an export-processing zone like that in Taiwan? Do you dare to create something like a free port? You look at Singapore and Hong Kong, that’s how they developed their economies”.  
                        The suggestion was to spur Wu into action: within a week, he sent a 1300-word telegraph to provincial leaders Xi Zhongxun, Yang Shangkun, and key members of the Guangdong provincial committee, proposing to delineate special economic zones in the province. |
| March-April 1979    | Guangdong provincial committee met to discuss Wu’s proposal.  
                        Wu was keen to establish Shantou as an export-processing zone  
                        Prior to the meeting, a separate proposal was sent by the-then Bao’An County (the official name of Shenzhen) to establish an export base  
                        The Guangdong provincial committee prepared a proposal to develop “trade cooperation districts” (maoyi hezuqu) in Shenzhen, Shantou and Zhuhai (a city located adjacent to the free port of Macau, then under Portuguese-administration); the broader aim is to seek permission (from the central government) for Guangdong to ‘take the first move’ (xianxing yibu) in China’s economic reforms |
| April 1979          | On 5 April, Guangdong Provincial chief Xi Zhongxun made a speech at the Chinese Central Government’s annual meeting (5-28 April): “Currently power is too concentrated at the central government, local governments feel that doing things are difficult, without power, things are difficult to do…Guangdong is very near Hong Kong and Macau, there are many ethnic Chinese, we should thoroughly make use of this beneficial condition and enthusiastically develop the outward exchange of economic expertise. To this end, [we] hope the central government can give a little power, let Guangdong take the first move and work freely”.  
                        Vice-Premier Gu Mu delivered the Guangdong provincial committee’s proposal to Deng Xiaoping  
                        Deng agreed with the proposal and, intriguingly, suggested the proposed new zones be viewed the same way as the wartime Shaan-Gan-Ning border region (1937-1949; ref. section 2.1): “Just call these zones ‘special zones’ (tequ), just as Shaan-Gan-Ning was a special zone”.  
                        Deng added: “The central government has no money, you develop these [new zones] yourselves, you must carve out a brand new path”. |
| May 1979            | 5 May: The Guangdong provincial government issued the first draft of the proposal “Initial considerations of the plan to establish export special zones in Shenzhen, Zhuhai, Shantou”  
                        This is the first time the term ‘special zone’ (tequ) appeared in the formal policy documents. |
| August 1980         | Following months of editing, the final version of the “Regulations of Guangdong Economic Special Zones” (Guangdong sheng jingji tequ tiaoli) was approved by the central government. The approval marked a geo-historical repetition: just as the CPC launched peasant movements from Guangdong in 1929, the new course-changing reforms were again launched from Guangdong.  
                        The date of approval – 26 August 1980 – is now the commemorative day of Special Economic Zone formation (jingji tequ chengli jinianri) |

Figure 5.3 In the beginning was…coastal bias? Changing geographies of industrial* concentration in China, 1978-2001

*‘Industrial’ is amongst three categories employed in statistical calculations, the other two are ‘agricultural’ and ‘services’.
But the goal of overcoming budget deficits through spatially-selective strategies to embed global circulatory capital soon morphed into a more elaborate reconfiguration that overlapped the rural reforms. Specifically, the selection of the coastal seaboard for new industrial spaces became a *patterned outcome* that directly affected rural development in the interior. In a 1988 publication “Two Big Pictures” (*liangge daju*), Deng summed up his theoretical approach to economic-geographical development: “the coastal areas must accelerate its opening up to enable this broad region of 200 million people to first develop, from which it will stimulate even better development in the interior. This is a matter that involves a big picture. The interior must understand this big picture.”

Deng was, interestingly, at once more specific and more vague in his exposition than Mao’s 1956 clarification of the coast-interior relationship (ref. above). The specificity of his injunction was expressed through the identification of an equally important ‘big picture’, which entailed people of the coastal provinces to reciprocate the state’s decision to first implement reforms in their provinces by *accepting* the subsequent redistribution of accumulated value accruing from economic liberalization for the development of the interior: “upon attaining a certain level of development, the coastal areas are requested to give more energy to assist in the development of the interior, this is also a ‘big picture’” (author’s translation). There is, in other words, a reciprocal obligation to assist in the development of less developed areas in the interior.

Yet, in relation to Mao’s attempt to integrate redistribution within economic governance in the People’s Communes, Deng left open the timing of when coastal provinces would be “requested” to help. This vagueness was to deepen socio-spatial tensions and exacerbate the challenge of subsequent reforms. Indeed, it could be argued that the establishment of the four SEZs set the stage for the uneven development seen in China today (ref. Table 1.1, Chapter 1). Specifically, state spatial strategies focusing on the production of capital accumulation enclaves in coastal cities expanded – not expunged – the extraction of resources from the rural hinterland. Where the extraction of surplus value during the Mao-era was through immobilizing
peasants in the People’s Communes and subjecting them to near-subsistence standards of living, the new mode of surplus extraction was contingent on mobilizing peasants to satisfy the demand for labor power in the targeted spaces of industrialization. In other words, the logic of extracting huge surpluses from peasants did not change; what changed was the economic-geographical expression of this logic. Zhao Ziyang – Premier of China between 1980 and 1987 and a key actor who implemented the ‘ladder step’ approach – explains this logic clearly:

In fact, the acceleration of development along the coast would not only benefit the coast but also drive the economy of the whole nation, including the inner provinces. Without the development of the coastal regions, where would all the migrant workers find employment? If the coastal regions developed, the laws of labor-intensive production would also apply within the country and shift to places where labor was even cheaper. As the cost of labor started to grow in the coastal regions, they would be forced to make adjustments in their production. Therefore, we could not develop at a uniform speed and we needed to proceed with one area driving and promoting another. Uniform moves would mean neither could move faster. The coastal regions were part of China; if their strengths were utilized, it would be beneficial to the whole nation, including the central and western regions. From the point of view of overall development, it was necessary to make development of the coastal regions a priority. (Zhao, 2009: 149)

As Zhao makes clear, the ‘free’ movement of labor was fundamental to the ‘ladder step’ approach. In one instance, however, Zhao got the cause-effect logic wrong: the key cause-effect logic is the coastal industrialization strategy preceded the reform of demographic mobility. Without the emergence of a huge and seemingly inexhaustible supply of cheap labor, how could China’s coastal economic geographies be attractive sites of accumulation for global circulatory capital? The issue, quite clearly, is not whether migrants workers could find employment without coastal industrialization, but whether spatially-targeted industrialization along the coast could materialize at all without the willingness or, as shall be addressed shortly, the necessity of workers to migrate and accept ultra-low wages in the coastal factories/offices.

Peng Xizhe, a leading public policy scholar from Shanghai’s Fudan University, puts the situation in perspective:

The reason why rural workers can engage in economic activities at much lower wages in the cities is due to this two-tiered social status. If there is no hukou institution in China, rural workers will hope to have the same lifestyles, the same wages, and the same working conditions as those living in cities. Yet because one continues to feel s/he is a peasant [in the cities], that the ‘home’ is in the countryside, the feeling of being in the city would be for the purpose of earning some income, so long as wages are acceptable [in relation to those in the countryside], s/he will be willing to work. This phenomenon is an important precondition of the existence of low-cost labor in China. (Xinhua, 13 August 2009: n.p.; author’s translation)
Viewed in relation to this “important precondition” (zhongyao qianti), the state spatial strategy to demarcate SEZs could not be interpreted as the state’s evolving recognition of peasants – or, indeed, of all Chinese citizens – as ‘free’ economic agents. Rather, the recognition of individual economic ‘freedom’ extends only insofar as it meets predetermined policy objectives (as defined by the ‘ladder step’ approach and, subsequently, by new state spatial strategies such as the development of “nationally strategic new areas”). At the practical day-to-day level, economic ‘freedom’ was limited to the possibility of putting up for sale one’s labor power in geographically predetermined areas and/or private investments in permitted economic sectors. Even so, as Liu Kaiming, Head of the Shenzhen Institute of Contemporary Social Observation, explains, the reconfigured socioeconomic relations across the country that jump-started the growth in peasant migrant workers were not directly triggered by the creation of the SEZs, but by shifts in the state’s policy on agricultural production, especially its unwillingness to purchase grain (and cotton) above its self-stipulated quota, leading in turn to dampened enthusiasm amongst peasants to grow grain altogether:

China’s economic reforms have always begun in the villages...after the HRS was launched [in 1978], there were difficulties in selling grains in 1984, leading to the loss of income. At this point, those born in the 1950s and 1960s became labor power [laodong li], labor power that could not be accommodated within the villages. It was only when there seemed to be no other alternative that the central government issued a document permitting peasants to enter the cities to look for work, provided they bring along their own food. Yet how the migrants enter the cities was always contingent on what the top termed as ‘with order’ [youxu], all the documents were about control or blockage. (Interview with www.china.com.cn, 5 February 2009; author’s translation)

According to Hu Angang, a renowned senior economist in China and regular consultant to the CPC, the real change in the relaxation of peasant mobility began only after two decades of reforms:

After 1958, there was a ‘red light phase’ in China wherein the peasants were not allowed to enter the cities; after 1984, this changed into a ‘yellow light phase’, that is you can enter the cities, but you must bring along your own food; the true fundamental change occurred at the end of the 1990s or after 2000, where the ‘yellow light phase’ changed into a ‘green light phase’. I feel the most important change occurred in 2001, with the Chinese government proposing a broad ‘acceleration of urbanization’ [chengshihua jiasu], together with specialized plans for urbanization. This point was raised in the proposal: apart from extremely large cities, which in reality referred to Beijing and Shanghai, all other cities must reform the employment and hukou institutions. (Interview with www.china.com.cn, 5 February 2009; author’s translation)

From one angle, it is quite straightforward why 2001 accentuated the need to change Mao-era
institutions: China became part of the WTO in the same year. For the entire national economy to be more deeply integrated into the global economy through trade and production, factors of production required more mobility. And the relaxation of demographic controls generated its strongest impact after 2001. As Figure 5.4 shows, by 2005, major migrant flows to the western interior – an important aspect of the Mao-era – were almost non-existent; the converse was true, however, with major migration inflows into the coastal provinces, particularly Guangdong, Zhejiang, and Jiangsu. The outcome was a growing flow of peasants from the interior rural hinterland to the coastal city-regions, leading to a growing proportion of de facto urbanized population (see Figure 5.5).

More recent data from the 2010 Chinese Population Census shows that, between 2000 and 2009, 11 coastal provinces (out of 31 provincial territorial divisions, excluding Hong Kong, Macau and Taiwan) accounted for a total of 47% of national urban population growth. Proportionally, within the 9 years of accession into the WTO, the de facto urban population – which comprises both registered ‘non agricultural’ residents and new rural migrants – increased from a third to half of the total population (see Figure 5.5). The urban population at the inception of reforms in 1978 was only around a fifth of the total, and almost exclusively reflects a clear separation of ‘non agricultural’ citizens from ‘agricultural’ ones; the current urbanization rate reflects the ‘floatation’ of populations between their rural ‘places of origins’ (i.e. the hukou suozaidi mentioned in Chapter 4) and the city-regions offering wage employment opportunities.

The ‘floating population’ (liudong renkou) is officially defined as the migrant population residing for more than 6 months in an address not of their household registration). The 2010 Chinese Population Census estimated the floating population to be 144 million people in 2000; the number increased by 81% to 261 million people in 2010 (Chinese State Council 6th Population Census Office, 2012). The correlation between this massive coastal demographic concentration and the ‘miraculous’ expansion in GDP after 2001 (as expressed in Figure 5.6) strongly suggests the effects of rural class polarization and the intensification of industrialization in coastal city-regions converged over the past decade.
Figure 5.4 Top 30 Inter-Provincial* Migrant Flows, 1990-2005

Source: Reproduced from Chan (2013: x)
*Between 1990 and 1995, Chongqing was a part of Sichuan province. It became a province-level municipality in 1997.
Figure 5.5 Changing proportion of *de facto* rural and urban population in China

Figure 5.6 Causes and effects of China’s GDP growth (in current US$), 1960-2012
*Source:* Statistics from the World Bank. Author’s illustration and cross-references.
Against this empirical backdrop, one question remains unanswered in the literature on China’s economic development: how and why would such a large number of peasant flows into the (coastal) cities be possible if rural reforms have been successful? As Liu Kaiming’s observation underscore, the flow of peasant migrants into cities had its ‘push factors’ in the rural hinterland (see also section 5.2 on issues pertaining to the dissolution of the communes). The absorption of these migrants – in itself an ironic process that generates social costs due to growing tensions between ‘locals’ (bendi ren) and ‘non-locals’ (waidi ren) – necessitated effective demand (from capitalists) for rural surplus labor power in cities, particularly the strategically targeted coastal city-regions (ref. Figure 5.1). It was arguably because of this necessity that more ‘opening up’ was implemented (cf. reference to Hinton’s comment in the introductory section in this chapter). Yet, as Chapter 6 will show, the contradictions generated by this migrant flows towards the coast – Guangdong being the top recipient destination through the 2000s – were strongly exposed by the 2008 global financial crisis, triggering a new round of state rescaling in the Pearl River Delta.

Placed in relation to the 2010 Chinese Population Census data on population concentration in coastal city-regions, the growing urban bias in socioeconomic regulation and the concomitant ad hoc approach to reforms underscores one distinct characteristic of urbanization: the passage of time did and could not automatically ease the uneven development between the coastal seaboard and the vast interior (cf. Deng’s 1988 injunction, quoted earlier in this chapter). Indeed, as discussed in Chapter 2, if the Mao-era was already characterized by entrenched income and output inequality, the situation was exacerbated by the state spatial strategies of the post-Mao era. As one academic/planner from Sichuan province puts it:

Be it value-added production based on imported raw materials, or simple trade, the eastern region was first to connect with the world. As such, the broad western region could only provide supply-side impulses to the east, supplying natural gas, minerals, of course, incessantly supplying labor...Against this background, the western region became a base of raw materials and labor, but because of no good redistributive structure, the ultimate outcome is faster development in the eastern region and slower development in the west. It is clear that the ladder step theory did not work. (Interview, March 2012, Chongqing; author’s translation).
The above interpretations open up two interrelated questions. First, in relation to Deng’s 1988 speech mentioned earlier, when would the ‘definite time’ come for coastal provinces to reciprocate the contributions of interior provinces? Second, how would Deng’s logic of eventual redistribution be organized on the basis of the Mao-era *hukou* institution? To begin with, it is not an inadvertent occurrence that the ‘green light phase’ of peasant migrant movements – to borrow Hu Angang’s term – became definitive in the same year (2001) as the Chinese economy became a part of the World Trade Organization (WTO). Chinese surplus rural labor power needed to be absorbed in gainful employment in order to shoulder the additional financial burden heaped on them by earlier rounds of reforms in the 1980s and 1990s. Yet this gainful employment can only come about through more ‘opening up’, which culminated in deepened economic integration with global circulatory capital (as symbolized in the accession into the WTO). A contradiction with Deng’s reference to eventual spatial redistribution thus emerges: how would this be possible – or, indeed, necessary – when the population and financial capital is increasingly concentrated in the coastal provinces? The prominent policy issue, as it should now be clear, revolves around the tension between uneven economic-geographical development, a primary ingredient for the expansion of capital accumulation, and the redistribution of economic resources, a process that could accomplish the vision of ‘Common Affluence’.

5.4 Solving uneven development with…uneven development?

From an economic-geographical point of view, an unanswered theoretical question lies in whether post-Mao state-directed uneven development was a necessary ingredient for ‘socialism with Chinese characteristics’. Or, as the foregoing analyses in this chapter and Chapter 2 suggest, it remains unclear whether geographically-targeted policy experimentation in the post-1978 era, which repurposed rather than jettisoned the spatial logics of Mao-era socioeconomic regulation, has frustrated Deng’s commitment to spatial egalitarianism. In the initial stages of reforms, the regional developmental approach appeared to work towards
Deng’s 1988 vision of spatial egalitarianism. The issue concerns the means to attain the vision, not the vision per se. More than three decades after the 1978 reforms, however, it became apparent that the pursuit of ‘socialism with Chinese characteristics’ within a context of global economic integration is driven in motion by a seemingly irresolvable geographic tension: decentralizing strategies to overcome inherited uneven economic-geographical development inevitably entails the reconfiguration of state space. This reconfiguration can only generate a new round of uneven economic-geographical development.

This contradictory developmental approach began while Deng was still in power. Increasingly concerned about the delegation of power to the local levels (particularly in the rural areas) might lead to a loss of power in the center, the Deng government moved before the 1989 Tiananmen riots in Beijing to re-assert central politico-economic control (ref. Li Peng’s response to the contradictions of reforms in Chapter 2). The riots arguably catalyzed the resolve to enhance autonomous central political and economic power. The spatial strategy to develop Pudong New Area in Shanghai marked the beginning of a shift away from rural reforms which, as mentioned earlier, were led by quasi-private individual entrepreneurs and the TVEs. What the CPC wanted was an urban-industrial approach to economic development driven by two primary sources of capital – state capital, embodied in SOEs, and foreign capital, initially only through compulsory joint-ventures with state-approved domestic firms, but now permitted to operate in wholly-owned forms in selected sectors and/or locations. Launched in tandem with the 1994 fiscal reforms (see Box 2.1, Chapter 2), the reconfiguration of centrally-owned SOEs (the yangqis) and the ‘marketizing’ overhaul of the national financial system (see Box 5.2), central state control of the national scale of accumulation was reinforced.

The two-pronged process of deepening marketization reforms – culminating in Deng’s proclamation of the ‘socialist market economy’ as the desired endstate in 1994 – and concentrating economic resources (and hence redistributive power) in the central government exacerbated the then-existing uneveness within Chinese state spatiality in two simultaneous ways. At the national level, it accelerated the flows of population and capital, as discussed in
the previous section, to the coastal city-regions; within these city-regions, new socio-spatial divisions emerged, as the China-based public intellectual Qiu Feng explains:

The worsening of income inequality presents a new phenomenon: the concentration of the poor in cities and towns...With the large scale influx of peasant workers into cities and towns, the already serious urban-rural disparity becomes transplanted within the urban interior. Add to this the actually-existing poverty groups in the cities, the size of the permanent poor population in urban areas becomes considerable. On the other hand, the majority of the wealthy population also resides in cities. Hence, the more developed the city, the more pronounced and serious the wealthy-poverty disjuncture (pinfu fenhua). (Qiu Feng, 2011: n.p.)

Up till Deng’s passing in 1997, the CPC did not designate any time for wealth to be proactively transferred from the coastal belt to the central and western interior to attain long-run spatial equilibrium. There was also no detailed plan that explains what would happen to the coastal provinces’ economic development as resources are re-directed westwards. Does it mean a temporary stagnation in growth? Or, if growth is to be sustained, could this be achieved in a manner that can be constituted as a Pareto improvement (i.e. the eastern provinces do not feel that they are worse off as resources get redistributed)? Viewed in relation to earlier studies that found no coherent national developmental blueprint (see, e.g. Rawski, 1995; Breslin, 2003), the CPC appears to be extending its experimentalist developmental approach to the present conjuncture (cf. Heilmann and Perry, 2011).

Box 5.2 Evolving logics of financial controls and flows in China, 1949 - present

Arguably one of the definitive economic changes in the post-Mao era was the reform of the Chinese financial system. In some ways, these ‘reforms’ were more aptly termed ‘experimental additions’ of actually-existing institutions common in many countries, and were arguably necessary to facilitate a transition from an insulated economy to one that would be increasingly integrated with transnational circulatory capital.

After the CPC established ‘new China’ in 1949, all of the pre-1949 capitalist companies and institutions were nationalized by 1950. Between 1950 and 1978, China’s financial system consisted of a single bank – the People’s Bank of China (PBoC), a central government owned and controlled bank under the Ministry of Finance, which served as both the central bank and a commercial bank, controlling about 93% of the total financial assets of the country and handling almost all financial transactions. With its main role to finance the physical production plans, the PBoC used both a “cash-plan” and a “credit-plan” to control the cash flows in consumer markets and transfer flows between branches. All banking facilities in the communes and cities were connected to the sprawling PBoC control network.

The first main structural change commenced in 1978 and concluded in 1984. By the end of 1979, the PBOC departed the Ministry and became a separate entity, while three state-owned banks took over some of its commercial banking businesses: The Bank of
China (BOC) tasked to specialize in transactions related to foreign trade and investment; the People’s Construction Bank of China (PCBC), originally formed in 1954, was established to handle transactions related to fixed investment (especially in manufacturing); the Agriculture Bank of China (ABC) was set up (in 1979) to deal with all banking business in rural areas; and, the PBoC was formally established as China’s central bank. This marked the beginning of a two-tier banking system in China. Finally, the fourth state-owned commercial bank, the Industrial and Commercial Bank of China (ICBC) was formed in 1984, and took over the rest of the commercial transactions of the PBoC.

Through the 1980s, the development of the financial system can be characterized by the fast growth of financial intermediaries outside of the “Big Four” banks. Regional banks (partially owned by local governments) were formed in the Special Economic Zones in the coastal areas; in rural areas, a network of Rural Credit Cooperatives (RCCs; similar to credit unions in the U.S.) was set up under the supervision of the ABC, while Urban Credit Cooperatives (UCCs), counterparts of the RCCs in the urban areas, were also founded. Non-bank financial intermediaries, such as the Trust and Investment Corporations (TICs; operating in selected banking and non-banking services with restrictions on both deposits and loans), emerged and proliferated in this period. This period also marked the re-emergence of what is now (in)famously known as the ‘shadow banking system’, as possibilities for private, unregulated lending emerging in tandem with reforms in the rural hinterland (see Tsai, 2002).

The most significant event for China’s financial system in the 1990s was the inception and growth of China’s stock market. Two domestic stock exchanges (in Shanghai and Shenzhen) were established in 1990 and grew very fast during most of the 1990s and in recent years in terms of the size and trading volume. In parallel with the development of the stock market, the real estate market also went from nonexistent in the early 1990s to one that is currently comparable in size with the stock market. Both the stock and real estate markets have experienced several major corrections during the past decade, and are characterized by high volatilities and speculative short-term behaviors by many investors.

The financial mechanisms found in most capitalist economies today are employed by the CPC in financial regulation. In an intriguing twist, however, the new system that emerged in the post-Mao era is beginning to take the form of the PBoC-styled control network employed in the Mao era: the entire system trades – and, by implication, distributes risks – almost within itself (see Walter and Howie, 2011). The dominant banks are now owned by the central government; regional banks by local governments. All banks are subject not simply to moral suasion by the PBoC; mandate-like directives constitute the standard governance method. Correspondingly, lending to private SMEs is a major issue, with banks preferring to lend to larger firms that are invariably more likely to be state-linked or state-owned. As Tsai (2004: 7) shows in an excellent analysis, the market-like transformation plays an important role of taking over the burden of subsidizing SOEs as the central government undertook fiscal reforms. This development ultimately limited “the availability of formal bank credit to the most productive and market-oriented part of the Chinese economy, the private sector.”

The persistence of strong state control is an important phenomenon in itself and has been the focus of scholarly research in recent years. It takes on a different significance in the context of research on “nationally strategic new areas”: how, indeed, could the ongoing attempt to ‘internationalize’ the Chinese yuan take place without the CPC relinquishing control of a financial system it painstakingly reconfigured to reinforce state dominance? The answer could lie in the experimental reforms in Hengqin and Qianhai New Areas (see Chapter 7).

Source: Author’s compilation.
Ostensibly aware of potentially-damaging consequences of the widening coast-interior unevenness, Deng’s successor, Jiang Zemin, began to focus on developmental issues confronting the interior provinces. Reiterating Deng’s philosophy, Jiang averred in a 1999 speech that “reducing the developmental disparities within the entire country, developing in a coordinated manner and ultimately attaining Common Affluence is a basic principle of socialism” (People’s Daily, 10 June 1999; author’s translation and emphasis). Yet, in an important and arguably path-changing point made in the same year, Jiang was quick to qualify that he was not about to jettison the spatial logic of socioeconomic regulation that had contributed to China’s economic growth:

My understanding is, when Comrade Deng Xiaoping mentioned letting some regions and people to first prosper before gradually reaching Common Affluence, that is still not the end point. Upon reaching a relatively higher standard of living, more advanced regions must still move forward. Equilibrium is relative while disequilibrium is absolute, this is the objective rule of material development. (Jiang, 2006: 341; author’s translation)

Here, Jiang was quite clearly echoing Mao’s approach to development in his refinement of Deng’s 1988 view of eventual spatial egalitarianism:

Every year our country draws up an economic plan in order to establish a proper ratio between accumulation and consumption and achieve a balance between production and needs. Balance is nothing but a temporary, relative unity of opposites. By the end of each year, this balance, taken as a whole, is upset by the struggle of opposites; the unity undergoes a change, balance becomes imbalance, unity becomes disunity, and once again it is necessary to work out a balance and unity for the next year...The ceaseless emergence and ceaseless resolution of contradictions is the dialectical law of the development of things. (Ibid.)

It was on the basis of ‘absolute disequilibrium’ that Jiang announced, in November 1999, the ‘Great Western Development’ spatial project (xibu dakaifa; see Figure 5.5 and Table 5.2). This strategic program, ratified by the State Council in 2001, represented the beginning of more targeted approaches towards developing the interior. The original plan involved enhanced fiscal redistribution to the western provinces; more commitment by the central government to infrastructural development; opening up more sectors for foreign investments; and implementing preferential policies to attract foreign capital to the interior parts. Several large-scale projects were subsequently implemented – the two most significant projects were arguably the Three Gorges Dam, built along the Yangtze River, and the high-speed rail network
linking Beijing to Lhasa, located at 4500m altitude on the Tibetan plateau – and more foreign capital did flow into western provinces like Sichuan and Xinjiang. Yet the growing population concentration in the coastal cities and the huge inter-regional income disparities indicate the overall pattern of regional unevenness was not ameliorated (see section 5.3).

**Figure 5.7 Geographical scope of the three major cross-provincial developmental programs across China**

*Source: Author’s illustration.*
<table>
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<th>Regional strategy</th>
<th>Time</th>
<th>Developmental details</th>
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| Great Western Development (xibudaikaifa) | February 1999 | • The Chinese central government officially announced ‘To implement the Great Western Development strategy’  
• The first concerted attempt by then-leader of China, Jiang Zemin, to address the growing regional disparity in capital allocation, income levels and infrastructural development |
|                                   | February 2002 | • The strategy was integrated into the 10th National 5-Year Plan  
• A 10-year talent development plan for western China was launched |
|                                   | December 2006 | • The strategy was re-approved to be part of the 11th National 5-Year Plan  
• Marked the beginning of more spatially-targeted reforms in the western region, notably reforms of the hukou system in Chongqing and Chengdu, the concomitant integration of urban and rural areas, and the inter-regional transfer of industries (canye zhuanyi) |
|                                   | February 2012 | • Planning of the strategy to be implemented as part of the 12th National 5-Year Plan was approved by the State Council  
• Annual fiscal commitment by the central government doubled to 400 billion yuan (~US$63.45 billion)  
• Aim of enhanced fiscal support is to shift western China from ‘blood transfusion’ mode (i.e. passive recipient of external capital, the primary approach of the past decade) to ‘blood making’ mode (i.e. proactive generator of capital) |
| Northeastern Rejuvenation (dongbei zhenxing) | November 2002 | • The northeastern region, comprising the provinces of Heilongjiang, Jilin and Liaoning, was China’s heavy industrial center in the 1950s to the 1970s; it experienced relative neglect in capital investments after Deng’s reforms were implemented  
• ‘The support of accelerated adjustment and amendment of old industrial bases in northeastern areas’ was explicitly indicated in the Report of the 16th National Congress |
|                                   | August 2007 | • The State Council officially approved ‘Northeast regional rejuvenation plan’  
• New plan for northeastern rejuvenation approved; new policies will be launched to further open investment opportunities in cities including Dalian, Dandong, Haixi, Manzhouli, Hunchun, and Suihua; the plan also aims to deepen Sino-Russian regional cooperation.  
• Total fiscal support for 2011-2012 set at 29.5 billion yuan (US$4.7 billion)  
• Urbanization rate to be increased to 60% |
|                                   | March 2012 | • Concept to ‘enhance the rise of central China’ first raised in Premier Wen Jiabao’s annual working report  
• Primary aim was to coordinate the development of six provinces, namely Shanxi, Henan, Anhui, Hubei, Hunan and Jiangxi  
• State Council calls for implementation of recommendations to enhance ‘the rise of central China’ |
| The Rise of the Centre (zhongbu jueqi) | March 2004 | • State Councils approved ‘Plan to enhance the rise of the center’  
• Aims to resolve the ‘neither here nor there’ (budongbuxi) developmental dilemma faced by these central provinces: while these provinces do not possess the ‘first mover’ advantage of coastal provinces, they are as underdeveloped as provinces in the western interior; as such, they do not gain priority in the central government’s developmental policies  
• This plan complements the two other regional plans to create an integrated national developmental approach based on preexisting uneven economic geographies |

Source: Liu et al (2012); Chongqing Shangbao (21 February 2012); China Daily (22 March 2012).  
Author’s compilation and translation from Mandarin.

The same could be said for two other cross-provincial programs known as Northeastern Rejuvenation (dongbei zhenxing) and Rise of the Centre (zhongbu jueqi) (ref. Figure 5.7 and
Table 5.2). While fiscal monies have been redistributed to the provinces involved to launch concrete developmental projects, these cross-provincial programs entailed no specific institutional (re)formulations at the provincial level (for a detailed overview, see Li and Wu, 2012; Liu et al., 2012). According to Liu Weidong (2012: 7), a leading China-based economic geographer, the broad cross-provincial developmental programs are part of a passive overall plan; they function independently rather than relate to one another, and do not have clear goals. For this reason, Liu adds, these programs do not provide guidance for an overall (i.e. national) regional development strategy.

The more crucial goal of these programs, this chapter argues, appears to be the production of geographical imaginations based on unique regions. This goal, which contains strong echoes of Mao rescaling of China into six administrative regions in the early 1950s (ref. Chapter 4, Figure 4.2), is to materialize through a discursive-ideological strategy. The name of each program began to be included in individual provinces’ policy documents, while the mass media began to discuss province-specific economic development policies in relation to the broader regional strategy (e.g. how the urbanization of capital and labor power in Chongqing is connected to and helps drive the Great Western Development program). Developing regional consciousness is important as individual provincial governments have been working disparately, particularly since the early 1990s, and interprovincial (and, by extension, interurban) collaboration has proved very difficult (author’s personal communications with Chinese urban planners, 2012). Intriguingly, the delineation of three major regions of development bears striking similarity to Mao’s ‘Three Front’ spatial developmental approach in the mid-1960s (cf. Li and Wu, 2012; Box 4.2, Chapter 4); the key difference is that these regions’ developmental programmes are no longer geopolitically-oriented. The primary goal, rather, is to enhance their respective capabilities to embed and re-generate capital flows.

If the 2010 Chinese Population Census and GDP per capita comparison between provinces and cities are anything to go by, uneven economic-geographical development remains an entrenched problem in 2011, more than a decade after the ‘Great Western
Development’ paradigm was launched. Unsurprisingly, the Chinese State Council overtly (re)identified uneven development as a major policy issue in its 12th 5-Year Plan (2011-2015). Regional disparities, structural impediments and lack of overall coordination were among the 10 specific problems perceived as encumbrances to sustainable economic growth (see Table 1.1, Chapter 1). In a televised press conference, Premier Wen Jiabao emphasized that despite China’s current standing as the world’s second largest economy, his government is “also fully aware that China remains a developing country with a large population, weak economic foundation and uneven development” (CCTV live telecast, 14 March 2011, author’s transcription). Shortly after, Chinese President Hu Jintao acknowledged that “there is lack of adequate balance, coordination or sustainability in our development” (China Daily, 15 April 2011). This official recognition corroborates the fact that, despite the ameliorative attempts identified earlier, uneven economic-geographical development in China remains obdurately persistent. The policy responses in turn re-accentuate the importance of reconfiguring state space in the national planning agenda.

An increasingly distinct policy response to the uneven development issue – and one that constitutes the focus in the remaining half of this dissertation – is the geographically-targeted production of ‘nationally strategic new areas’ (guojia zhanlüe xinqu). The ‘new area’ concept is actually not novel, although its scale of implementation has widened considerably since 2006 (see Chapter 1). These ‘new areas’ are possibly designated to circumvent – if not overturn – the oft-debilitating, race-to-the-bottom competition by local governments (see section 5.2; cf. Howell, 2006). Yet, as the case studies of this dissertation reveal, the demarcation of the “new areas” are never predetermined. It is, rather, a politicized process that involved different actors aiming to actualize their developmental agendas through lobbying the central government for the right to reconfigure economic-geographies and launch “nationally strategic” experimental reforms. Interestingly, the strong interest at the provincial level benefits the central government.
In fact, through the ability to select spaces for policy experimentation, it could reinforce its political power and, by extension, adhere closely to the Four Cardinal Principles instituted by the Deng administration. As one planner in China remarked, ‘whenever the central government launches a project, many people at the local level automatically respond with much fervor. There is no problem getting people [at the local scale] to do things’ (personal communication, Beijing, 2012; author’s translation). The Vice-chairman of the People’s Bank of China, Pan Gongsheng, similarly revealed the fierce competition at the inter-provincial level when it comes to nationally strategic financial reforms:

Regional financial reforms must be predicated on local realities, bring forth regional characteristics, and at the same time must prevent spill-overs, inequalities and other negative effects, prevent a riotous charge to the top and making zero-sum comparisons, so as not allow the installation of reform experimental points and the production of financial centers to become a means for local governments to ask for preferential policies from the central government. (Transcribed by Xinhua, 24 November 2012; author’s translation)

These insights strongly suggest interprovincial and intercity competition have not devalued perceptions of the central government’s importance. On the contrary, and in a development of Shirk’s (1993) theorization of the “political logic” of post-Mao reforms (ref. Chapter 1), good relations with the central government remain highly-prized because it is through the central government that a locality ‘jumps scale’ and, almost instantly, assumes a propitious economic geographical position globally. The formation and evolution of the ‘nationally strategic new areas’ thus brings into focus how decentralization evolves into a form of centralization: through geographically-targeted implementation of reforms deemed important to retaining the national ‘structured coherence’ (ref. Chapter 2), these areas become the new frontiers of the Chinese political economy. Placed in relation to the discussion on central-local relations in Chapters 2 and 4, the emergent decentralization-as-centralization strategy transcends dichotomous conceptualizations of the post-Mao politico-economic centralization and decentralization. It specifically underscores how political centralization in China has, since the Mao era, effectively involved changing regulatory relations between governments located at multiple scales (cf. Chapter 2). Indeed, this strategy is arguably the defining characteristic and outcome of state rescaling in contemporary China.
5.5 Conclusion

This chapter is a macro overview of experimental policies that reconfigured spatial logics of socioeconomic regulation in post-Mao China. As mentioned earlier, while research attention on the ‘reforms and liberalization’ have lauded the role of SEZs in driving China’s economic growth ‘miracle’, the primary scale of concrete reforms were launched in the vast rural hinterland, where 80% of the population resided in 1978. It was from the rural scale – not the SEZs or cities – that individual entrepreneurship began to flourish in post-Mao China (Zweig, 1983; Oi, 1999; Sato, 2013). To be clear, this does not mean the communes were unimportant economically to Mao. As Bramall’s (2007) cogent study shows, post-Mao industrialization across the rural hinterland built on the accomplishments of the Mao era. The primary difference in Deng’s approach was arguably the degree of freedom granted to individual producers. Under Mao and (briefly) Hua, the economic practices were mandatory and aligned to support urban-based SOEs; self-determined production, if and where they occurred, had to be clandestine (Dikötter, 2011; Brown, 2014). Under Deng and his successors, economic practices could be flexible and free insofar as SOE targets were met. In other words, Deng wanted individuals – most of whom were peasants and local cadres – to keep “racking their brains”, to keep experimenting with new methods to generate capital surpluses (cf. section 5.1).

That the policy experimentation generated new forms of uneven development is now a recognized fact (see Table 1.1, Chapter 1); that CPC senior echelons allowed this to happen requires theorizing. With the benefit of hindsight, it is apparent that there are different but overlapping rationalities to the spatial logics of socioeconomic regulation in Deng and Mao’s approaches. Guided by the ‘ladder step’ theory that arguably remains central to Xi Jinping’s current approach to development, Deng’s approach to national regulation was similar to Mao’s in the sense that both recognized uneven economic-geographical development as an inevitability. The key difference lies in the way this inevitability – and, by extension, its concomitant socio-spatial contradictions – was rationalized. Mao viewed uneven development as an “irrational” historical by-product and felt this ‘irrationality’ had to be overturned eventually.
Yet the segregation of economic production into a “dual structure” (eryuan jiegou) comprising People’s Communes and city-based industries did not kick-start a coherent strategy towards developing a more spatially-egalitarian political economy.

In the same 1956 speech, Mao called for policymakers to build on the established industrial structure along the coast, a clear expression of path-dependency. And as Chapters 2 and 4 has described in detail, research has indicated Mao’s drive to develop a state-driven system of capital accumulation only re-expressed uneven development in different forms, namely in terms of 1) inter-provincial output and income disparities at urban-rural and inter-provincial levels; and 2) intra-commune social hierarchies. Even the Third Front construction of 1964, which saw major defence industries relocated to and the concomitant expansion of infrastructural construction in inland provinces, could not overturn the entrenched uneven development. It could thus be argued that the contradiction of the Mao era was his inability, even in the face of concrete facts (see review, Chapter 2), to recognize uneven development as a fundamental precondition of national(istic) industrialization (cf. discussion on income and output inequality in Chapter 2 and internal colonization in Chapter 4).

Deng, however, recognized and accepted this precondition. It was with this vision in mind that Deng planned for uneven development, with an eye to ‘resetting’ it to a higher level of ‘evenness’ in future. If Mao’s approach was contingent on a simultaneous mastery of regulatory geographies across Chinese state space (through geo-economic insulation at the national scale and ‘cellular’ economic organization at the commune level), Deng’s was premised on time (through ascertaining a moment for the redistribution of wealth from the more developed coastal region to the other two regions deginated in the ‘ladder step’ approach). This essentially means, at least for the first two decades of post-Mao development, state spatial reconfiguration was predicated on the notion that a future pause in transnational economic integration will arrive for the redistribution of surplus value. While the establishment of two “nationally strategic new areas” in the western interior creates an impression that ‘the time’ (yiding shihou) – in
Deng’s parlance – has come for the redistribution of accumulated wealth, the subsequent case studies will demonstrate they may yet jumpstart a new round of planned uneven development.

What this newest round of spatial reconfiguration suggests, indeed, is the constitutive role of instituted variegations in conditions of production for the enhancement of the CPC’s extractive capacities. Where Mao kept labor power and other factors of production fixed in space, the post-Mao regulatory regimes sought to influence, through state spatial strategies, the allocation of capital (both finance and capital goods) within the context of increasingly permeable geopolitical borders. The ‘liberalization’ of domestic demographic mobility reinforced this extractive capacity by channeling the required labor power to places that demand it most. Peasants were first allowed to exercise this “freedom” – which included the possibility of putting up for sale one’s labor power to private capitalists and/or becoming private proprietors – in their immediate villages, before its scope was expanded to city-regions in most provinces (see section 5.2). Just as the CPC created the prospect of economic “freedom” and mobilized the peasants into a successful revolution in the late 1940s (which, as Chapter 4 explains, led to the ‘scaling up’ of the means of production to the national scale), it created in the 1990s the prospect of economic ‘freedom’ to seek a livelihood during the post-Mao era (which, as this chapter demonstrates, led to the ‘freedom’ of labor power allocation). The resultant mobility of labor power provided a new platform for the CPC to reconfigure its socioeconomic organs – from the ministerial level to local state-owned enterprises – in preparation for a new round of state spatial intervention after China became a part of the WTO in 2001.

In the decade that followed, the mushrooming industrial clusters along the coastal seaboard ‘absorbed’ the rural surplus labor power created by intensifying rural class polarization while the state ‘retreated’ from its redistributive responsibilities in the rural hinterland (cf. Andreas, 2010). It was arguably this two-pronged reconfiguration of spatial regulatory logics – which began simultaneously but gradually took on a distinct urban bias in the 1990s – that made possible China’s ‘miraculous’ GDP growth (cf. Chapter 1). And, as Figure 5.5 shows below, the year that the economic ‘miracle’ truly began should be 2001 rather
than 1978 – accession to the WTO offered the opportunity for the surplus rural labor to be officially subsumed by transnational circulatory capital. China very quickly became known as ‘the world’s factory’, and GDP grew exponentially. This said, it is important to return to a key point raised in Chapter 1, namely that this miracle has generated – or, indeed, was premised upon – structural challenges that urgently needed addressing. The subsequent four chapters will elaborate on these challenges as they emerged during the buildup to the designation of Hengqin, Qianhai and Liangjiang into “nationally strategic new areas”.

Notes

1 The official year of dissolution was 1984, although it took longer for some regions.
2 Based on a study by Siculair (1988), grain prices increased by 20% for amount sold within the quota, while any amount sold to the state above the quota level would increase by 50%.
3 The intention to develop Shanghai and Chongqing – both of which were considered important cities and which would become sites of ‘nationally-strategic new areas’ – began much earlier. Discussions were raised in 1982 to establish SEZs in Shanghai and Chongqing, but strategic development was not approved. This was due to a new wave of opposition against the SEZs. However, Deng allowed 14 other special economic zones to be launched in ‘smaller’ cities (see Figure 5.2)
4 From, a great number of other zones were established, including the ‘Economic and Technological Development Zones’, ‘High Technology Development Zones’, ‘Bonded Areas’, ‘Free Trade Zones’ and ‘Free Banking Zones’. There can be confusion in the definition of these zones in China because different types in the same geographic region, such as in the SEZs, while some cities only contain one or two of these zones. By and large, these zones contain varying duty and income tax exemptions as well as special rules governing the flow of financial capital. The proliferation of these zones across Chinese state spatiality today makes the entire country a mosaic of differentiated regulatory geographies (ref. Figure 5.2).
5 The official exchange rate for 1978 was set at 1.68 yuan to US$1. This was widely considered to be unrealistic, and black market rates quoted significantly higher amount of yuan for every dollar. For instance, according to the author’s understanding, the official exchange rate was 3.76 yuan to US$1 in 1989, but the black market rate was between 12 yuan to 14 yuan per dollar. One reason for the high rates in the black markets was the-then colossal private demand for foreign exchange, which in turn reflected a lack of confidence in the domestic economy. While this demand still exists today, privately-set exchange rates tend to hover more closely to the official rate. At times, rates set by the central bank could even be better than private rates, which reflects growing demand for the yuan. The issues relating to the geographical control of yuan flows will be discussed in elaborate detail in Chapter 7.
6 The provinces classified as ‘East coast’ in the Chinese 2010 Population Census are further broken down into three sub-categories. They are, 1) the ‘North’ coastal provinces, namely Beijing, Hebei, Shandong, Tianjin; 2) the ‘Central’ coastal provinces, namely Fujian, Jiangsu, Shanghai, Zhejiang; and 3) the ‘South’, namely Guangdong, Guangxi and Hainan.
7 The 2005 Chinese Population Census also shows Guangdong to be the top recipient destination of migrants. See also Figure 5.4.
6.1 Introduction

The Greater Pearl River Delta (hereafter GPRD) region in the southeastern corner of China has functioned as the national economic ‘motor’ since experimentation with global economic (re)integration began in 1978. By official definition, the GPRD comprises nine cities and two Special Administrative Regions (SARs, namely Hong Kong and Macau). Encompassing less than 1% of China’s total land area and registering less than 4% of the total national population, the nine cities in the GPRD account for almost 10% of the country’s GDP\(^1\) over the last decade; during the same period, the region embedded an estimated 20% of its foreign direct investment (FDI) and generated approximately 25% of national trade. The location of three of China’s first four Special Economic Zones (SEZs), namely Shantou, Shenzhen, and Zhuhai, the region is part of a broader Guangdong province that was identified as the destination for the largest number of domestic migrant workers in the 2010 Chinese Population Census. Viewed as an integrated whole, this extended, cross-border metropolitan region is now deeply articulated in the global system of capitalism. With the two SARs functioning as ‘free’ conduits of/for capital flows and the other nine cities converting these flows into industrial production (through which invested capital would then be valorized when the finished products are re-exported), the GPRD is arguably the region in China where the fixities and flows of capital have been most intense over the past three decades.

Going by the emergent economic-geographical changes in the GPRD, there is no letting up in the quest to capture new investments. Between 2009 and 2012, the Chinese central government approved the launch of three inter-related ‘new areas’, each occupying a corner of the Pearl River Delta (PRD). As Figure 6.1 shows, Hengqin New Area is located on the western corner of the PRD, just adjacent to Macau SAR; Qianhai New Area is to the northwest of Hong Kong, just under 30 minutes of land connection following the completion of a new railway; and
Nansha New Area, the newest of the three, is located to the northern tip of the PRD, directly contiguous with Guangzhou, the capital of Guangdong province.

Exemplifying a new wave of state rescaling, defined in Chapter 1 as a reconfiguration of regulatory relations between governments across state space, the official objective of these three zones is to deepen economic integration with the Hong Kong and Macau SARs through a form of ‘staggered development’ (cuowei fazhan). Together with infrastructural investments to enhance the time-space compression of the PRD, the development of the three ‘new areas’ constitute a 7-project list in the Chinese government’s 12th Five-Year Plan to effect a broader spatial project known as the “Deepening of Guangdong-Hong Kong-Macau Co-operation” (see “Dedicated Chapter” on Hong Kong and Macau, Special Column No. 22). As the then Party Secretary of Guangdong province, Wang Yang, puts it, this economic-geographical reconfiguration would actively alter the spatial relations of the entire GPRD:

Amongst these there is the Hong Kong-Zhuhai-Macau Bridge, the Hong Kong-Shenzhen-Guangzhou direct train link, these [treasures] involve 7 major projects within one province, all these are of our province, this is what other provinces absolutely do not have, many provinces cannot even make one mention of this term [i.e. “treasure”]...The outline of the 12th 5-Year Plan provides a rare opportunity for regional cooperation, Guangzhou’s Nansha is included in the outline, the development of Qianhai in Shenzhen is included in the outline, Zhuhai’s Hengqin is in the outline too, this is like three chess pieces put together, these three chess pieces are three important nodal points in Guangdong’s industrial transformation and upgrading. (Zhuhai Daily, 8 March 2011)

This two-chapter segment shows how the rescaling of these “nationally strategic new areas” in Guangdong simultaneously facilitated place-specific institutional reforms and expressed the constraints of institutional path-dependency (ref. Chapters 1 and 2). As Chapter 4 has demonstrated, the overarching goal of three major policies at socioeconomic regulation was to produce and retain an integrated national political economy. This goal became increasingly challenged following gradual attempts at integration with the global economy (Chapter 5). The biggest difficulty of the reforms in Guangdong was thus to ensure sustained economic growth without unsettling the objectives of macroeconomic regulation. For this reason, the attempt to reconfigure Guangdong’s economic geographies – and by extension regulatory relations
between the central, provincial and city governments – was a distinct political strategy that in turn reflects the dynamism and uncertainty of state rescaling.

As the empirical research presented in this chapter reveals, there was no immediate tendency for firms, especially the medium and small enterprises that comprise the backbone of Guangdong’s intricate production networks, to relocate en masse from the Pearl River Delta to less developed regions in the province\textsuperscript{2}. Even when the global financial crisis struck in 2008, firms were not the primary agents clamoring for change. Yet, the global financial crisis provided an opportune backdrop for the Guangdong government to precipitate a “double relocation” (\textit{shuang zhuanyi}) industrial policy. The first relocation involves shifting labor categorized as ‘low-skilled’ and firms categorized as “high in pollution, high in energy use and low in efficiency” (\textit{lianggao yidi}) from the core Pearl River Delta region to the underdeveloped regions of the

\textbf{Figure 6.1. New economic-geographical transformations in the Greater Pearl River Delta: Hengqin, Qianhai and Nansha New Areas (established, respectively, 2009, 2010 & 2012)}

\textit{Source: Author’s illustration.}
province. Effectively a state-driven form of value chain upgrading, this policy in turn set the platform for a simultaneous inflow of advanced services and higher-order manufacturing. To jumpstart these inflows, “nationally strategic” reforms were introduced in Hengqin, Qianhai and Nansha under the ‘move first’ experiment first’ institution (cf. Chapter 1; specific aspects of policy experimentation to be analyzed in Chapter 7).

Against this backdrop, this chapter makes the argument that the emergence of Hengqin and Qianhai must be viewed within the broader context of economic-geographical reconfiguration in Guangdong. It develops the point raised in Chapter 2 that state rescaling in post-Mao China comprise a form of ‘adaptive governance’, through which actors positioned at different governmental levels (re)negotiate regulatory relations. Just like Deng’s SEZs were not part of a “unified national agenda”, these new “nationally strategic” sites were not part of a unified “national strategy” (ref. Chapter 1). Neither could this emergence be reduced to cost-based calculations internal to firms (cf.. Yang, 2012). In fact, as Wang acknowledged in a May 2009 discussion, firms were quite resistant to the ‘double relocation’ policy:

Some people felt life was quite good, so long as there was money to be earned, why force issues? Some felt industrial upgrading is a long-term process, was it necessary to trigger this through industrial relocation? And a third type was of the opinion that industrial relocation would have a direct impact on the local economy, especially at the town and village levels, hence their strong opposition. (*Nanfang Zhoumo*, 13 August 2009; author’s translation)

Rather, the emergence of the new experimental spaces is strongly connected to, if not totally determined by, Wang Yang’s official appointment as Guangdong Party Secretary in late 2007. Wang arrived in Guangdong on the back of having worked in Chongqing with the central government to roll out experimental reforms to transform the hukou institution (see Chapters 8 and 9). Within months of taking over the top leadership in Guangdong, it soon became clear that he wanted new experimentation to be introduced in Guangdong. To understand the emergence of Hengqin and Qianhai as new state spaces of socioeconomic regulation, it would first be necessary to situate this emergence in relation to the broader economic-geographical restructuring project set in motion by the Wang administration.
This chapter will comprise four parts. The debates on and politics surrounding the ‘double relocation’ industrial policy will be explained in section 6.2. The section explains how these central-provincial politics set the stage for the rescaling process. As Brenner (2004: 81) notes, “state scalar configurations must be conceptualized in a manner that is explicitly attuned to the historicity, and thus the malleability, of each scale of state institutional organization, regulatory activity, and political struggle.” The objective of this section is to explain the “historicity” and “malleability” of this provincial-scale restructuring. Section 6.3 then evaluates the tensions generated by the “double relocation” policy. It showcases how simultaneous industrial relocation and value chain upgrading was viewed as an (im)possible task. It was for this reason that economic restructuring in Guangdong became a national political issue. In turn, as section 6.4 will explain, this issue generated the driving force to ‘scale up’ the territories of Hengqin, Qianhai and Nansha into “nationally strategic new areas”. The concluding section emphasizes how state rescaling in Guangdong was contingent on the economic-geographical reconfigurations in ways that were never ascertained a priori by the Chinese central government. Conceptually, this phenomenon brings into question whether state rescaling has become a function of central governance in China, or, perhaps counter-intuitively, whether it is a new tool for local governments to perpetuate the economistic approach to development known as ‘GDP-ism’.

6.2 The economic-geographical backdrop: “double relocation” in post-crisis Guangdong

The development and emergence of Hengqin and Qianhai New Areas are inextricably entwined with the evolution and impacts of spatial projects implemented at the provincial and national level. For the large part of the past three decades, Guangdong had maintained its leading position in the Chinese economic-geographical hierarchy because of preferential policies launched during the Deng-era. This position in turn expresses a systemic coastal bias that saw provincial and city governments along the more industrialized eastern seaboard enjoy preferential treatment from central government agencies vis-à-vis their counterparts in the less-
developed western and northeastern interior. As Chapter 5 has elaborated, Deng Xiaoping’s macro-scale approach to spatial reconfiguration was based on the ‘ladder-step theory’, or *tidu lilun*. This prescriptive ‘theory’ – more accurately defined as a policy blueprint – delineated Chinese state spatiality into three economic belts: the eastern (coastal), central, and western. Deng gave one belt (the eastern seaboard) the priority in ascending the development ‘ladder’. He assumed that the fruits of development in the ‘first mover’ belt would diffuse downwards to other rungs of the ladder (see Fan, 1995; Wang and Hu, 1999; Chapter 8). Yet it was never clear when this diffusion would occur; in China today, there are increasing worries that a spatial equalization of living standards would never happen (Mao, 2013).

Because of Deng’s macro-level spatial project, Guangdong ranked as China’s top province by GDP annually since 1989. Statistics for 2007 indicate that 96% of import/export trade in Guangdong was concentrated in the PRD, which suggests economic data for Guangdong province would be an effective measure of the economic performance of the PRD (Guangdong Statistical Bureau, 2008). Placed in relation to national-level import/export figures, Guangdong on average accounts for almost 30% of the national total since China’s accession to the WTO in 2001 (National Bureau of Statistics, 2013). Along with the growing inflows of capital, Guangdong province – and the PRD in particular – has been the top destination for China’s expanding ‘floating population’ of migrant workers (*liudong renkou*) in the last decade. According to the Chinese national population census of 2010, a third of the country’s ‘floating population’ of around 200 million (this figure has since increased to 236 million in 2012) was concentrated in Guangdong. From these statistics on trade and employment, it can be inferred that, across Chinese state space, the PRD is by far the most deeply ‘articulated’ of the Chinese city-regions into the global system of capitalism.

The economic-geographical reconfiguration of Guangdong and its multi-dimensional relationship with foreign capital is arguably a particular snapshot of the CPC’s post-1978 politico-economic reforms (cf. Chapter 5). Within Guangdong, the dominant role played by foreign capital allowed GDP to grow without the concomitant emergence of a large private
capitalist class that is capable of undercutting CPC interests (many of the manufacturing subcontractors are in fact medium and small enterprises). With Hong Kong and Macau SARs functioning as geographically-contiguous offshore conduits for the valorization and reinvestment of financial capital, this strategic, state-driven engagement with foreign capital produced what Lin (1997) calls “red capitalism in south China”.

As with all processes, the deep articulation of Guangdong-based enterprises and labor power in global production networks generated its own developmental pathways. And at the onset of 2008 global financial crisis, this pathway became an economic-geographical liability. For Guangdong province as a whole, the trade dependency (as % of GDP) was 130% in 2007. By comparison, the national average was (an already-high) 66.2% in 2007. Towards the end of 2008, it was clear that the global financial crisis had precipitated a drop in effective global demand for manufactured goods from Guangdong-based industries. The province’s total volume of imports and exports decreased sharply for 8 consecutive months from November 2008, with the largest monthly decline rate reaching 31.1%. Foreign capital investments dropped by over 50%.

According to customs statistics, the total import/export value in Guangdong recorded 257.87 billion yuan (~US$40.1 billion) in the first half of 2009, a 20.7% decrease year-on-year (People’s Daily, 3 August 2009). Through an investigation spanning three years, the Nanfang Dushibao (2 April 2012) reported that two waves of factory closures followed after the crisis struck. Between 2008 and 2009, it was estimated that half of the 58,500 Hong Kong-owned export-processing subsidiaries would not survive, while a new wave of closures affecting more sectors ensued in 2011. Quite clearly, a strong exposure to international trade had become a double-edged sword for the Guangdong economy.

In a candid evaluation published in “The Outline of the Reform and Development Plan for the Pearl River Delta (2008-2020)”⁴, the Guangdong government delineated how earlier approaches to capital accumulation in the PRD have generated their own internal contradictions:
• The overall industrial body is of the lower-order; value-added of product is not high, the trade structure is not reasonable; innovative capacities are insufficient; overall competitiveness is not strong.

• The degree of land development is excessive; the ability to conserve energy and resources is relatively weak; problems with environmental pollution are relatively pronounced; resource limitations have become apparent; hence the traditional model of development cannot be sustained.

• Urban-rural and regional development remains uneven; the allocation of productive forces is still not reasonable; the efficiency of spatial usage is not high.

• Social projects are relatively lagging behind; the development of human resources, public service standards and ‘soft’ cultural capabilities are to be improved.

• The administrative management systems, social management system and other areas continue to face heavy reform tasks; tackling difficulties of reform have become greater.

Wang Yang responded to these contradictions with a strong dose of ‘shock therapy’ almost immediately after moving to Guangdong in December 2007. Wang first made clear his plans in March 2008 with four instructions to the local government of Dongguan, Guangdong’s major manufacturing hub located between Shenzhen and Guangzhou (the provincial capital). These instructions were, namely, to 1) push through the readjustment of the industrial structure and the ‘transformation and upgrading’ (zhuanxing shengji)\(^5\) of commodities produced; 2) reduce the urban population and improve labor force quality; 3) engage in comprehensive planning and gain momentum in the restructuring process; and 4) remain resolute in response to challenges, with a view of dismantling rigid ways of thinking, rigid developmental approaches, and the solidified constellation of interest groups. (Guangzhou Daily, 27 March 2008).

It is important to note that the global financial crisis was still not full-blown when Wang delivered his instructions. This strongly suggests industrial reconfiguration in Guangdong were part of a developmental agenda independent of the crisis. The primary goal of these instructions was to enable Guangdong to break out of the established path of export-oriented production. Wang summed up his approach through a strong warning to the Dongguan cadres: “If Dongguan does not reconfigure its industrial structure today, it will be reconfigured by the
industrial structure tomorrow” (Ibid.). Interestingly, this description expresses the necessity of socioeconomic reconfiguration vis-à-vis transnational circulatory capital. By asserting Dongguan would be “reconfigured by the industrial structure tomorrow”, Wang demonstrated an awareness that firms would eventually relocate to places that could offer higher rates of profits. And as a major global manufacturing site for TNCs, the Pearl River Delta was especially vulnerable to these pressures.

To enable firms to generate higher profit rates, Wang believes that places possess the agency to preempt the effects of spatial divisions of labor by reconfiguring the industrial structure. The embodiment of this agency is the ability of the local governments to influence, in a proactive and strategic manner, the allocation of capital. Attaining this ability would require policymakers to quickly identify falling rates of profit and/or growing economic inefficiencies in firms within their respective jurisdictions. To this end, Wang implored Dongguan’s cadres, the “government must fully develop its impact by devising and implementing policies for industrial reconfiguration, transformation and upgrading” (*Guangzhou Daily*, 27 March 2008).

New changes began to unfold rapidly thereafter. In May 2008, less than two months after Wang’s visit to Dongguan, the Guangdong government released a province-wide economic restructuring plan known as “Decisions on pushing forth industrial and labor power relocation” (hereafter “Decisions”). Central to the “Decisions” is the economic-geographical strategy of ‘double relocation’ (*shuang zhuanyi*). As mentioned in section 6.1, these ‘double relocations’ refer to relocating targeted enterprises and the labor power they employ from the PRD to “relocation industrial parks” (*chanye zhuanyi gongyeyuan*) in the less developed regions of the province, namely the eastern and western ends and the northern highlands (ref. Figure 6.1). These targeted firms and labor were those generating ‘two highs and one low’, i.e. high in pollution, high in energy use and low in efficiency (cf. section 6.1).

In turn, a parallel strategy to bring in advanced manufacturing and/or higher-order services would be introduced to enhance the industrial composition of the Pearl River Delta. Wang offered a detailed justification of his government’s restructuring rationale through the
CPC’s mouthpiece, *People’s Daily*:

To create an innovative Guangdong model, it is necessary to grasp key domains for autonomous innovation and pivotal sectors and work to overcome the technological barriers that constrain socioeconomic development in Guangdong. While there is a need to enhance the innovative tendencies within traditional industries experiencing transformation and upgrading, there is also a need to accelerate the industrialization of innovative technologies; while there is a need to push though new up-and-coming industries, there is also a need to implement technological projects amongst privately-owned sectors, so as to ensure the fruits of innovation are more widely-shared.

Labeling the industrial upgrading project ‘emptying the cage to change the birds’ (*tenglong huanniao*), Wang emphasized that his aim was to preclude economic ‘hollowing out’ by encouraging the growth of more high-tech firms:

For the Pearl River Delta, the point is to develop higher-order technologies endogenously, within the productive mechanisms of traditional industries, in turn realizing the true meaning of ‘emptying the cage and changing the birds’ (*tenglong huanniao*), or it could be called ‘expanding the cage and strengthening the birds’ (*kuolong zhuangniao*). On this basis, the situation of economic ‘hollowing out’ in the process of industrial transformation and upgrading could also be avoided. (Wang Yang, *People’s Daily* 17 October 2008; author’s translation)

Wang’s essay was clearly an attempt to justify the suddenness and extent of his developmental agenda after its implementation sparked widespread discussion and debate over its political and economic implications. In a Chinese political circle where key actors predominantly deploy codified language ‘internal to the institution’ (*tizhinei*) to convey their feelings, latent meanings are often expressed through symbolic metaphors. Viewed in historical perspective, Wang’s metaphorical choice of ‘cage’ and ‘birds’ appears deliberate. The original user of these metaphorical terms was Chen Yun, a senior economic advisor to Mao Zedong and, during the post-1978 reform era, an opponent of Deng Xiaoping’s (relatively) liberal approach to economic governance. Chen argued that the state could not hold ‘birds’ (i.e. capitalistic actors) tightly in its hands because they would suffocate; yet if the grip on the ‘birds’ loosened, they would inevitably fly away. The middle ground is to construct a sturdy ‘bird cage’ (i.e. an economy strongly regulated by the everlasting arms of the CPC) that allows the ‘birds’ to fly and breathe, but only within the parameters of the ‘cage’. Widely-known in China as “birdcage economics” (*niaolong jingji*), Chen’s logic arguably underscores the logic internal to the CPC’s overall approach on socioeconomic regulation today: giving more “decisive” roles to “the market” proceeds in tandem with reinforce state economic involvement (cf. Lin, 2011; more on this in
Wang Yang’s extension of Chen Yun’s metaphor to popularize his province-level restructuring project indicates institutional path-dependency in at least two instances. First, in an affirmation of the Four Cardinal Principles (ref. Chapter 2), it re-emphasized the necessity of the CPC to determine the geographical parameters for economic ‘birds’ seeking to maneuver within Chinese state space. The economic relations of the Guangdong regulatory regime across and beyond China were thus literally reconfigured through industrial policies that reconfigured spaces of production. That Wang was advocating proactive state intervention goes against conventional interpretations of his role as a (neo)liberal reformer. Indeed, as shall be shown shortly, Wang’s restructuring project could take place only because he had the support of the policymakers at the highest echelon – specifically, because he had the support of then Chinese President Hu Jintao.

Second, in seeking to retain the economic competitiveness of the PRD through significant economic-geographical reconfiguration, Wang was making clear his intention to stay on the top rung of Deng’s ‘ladder step’ model. As mentioned earlier, this model presumes a ‘leveling out’ in living standards would occur automatically. Prior to the 2008 “Decisions”, Deng’s presumption had become the status quo of economic-geographical evolution in China; no concrete attempt had been launched to reconfigure the national economic-geographical structure (the evolution of Deng’s strategy was discussed in Chapter 5). From Wang’s subsequent reflections, it can be seen that his fundamental intent in Guangdong was to ensure institutional continuity through change:

Practice has proven that with the conformity to market rules; with the courage to break through the path dependency that encumbers development; with the elimination of unreasonable interest groups; with the timely increase in developmental quality; and with putting the ability to sustain development in first place, it is definitely possible to create a developmental model that could deliver high value-added products, good quality development and personal income growth that is commensurate with the growth of the economy. (*People’s Daily*, 24 August 2012)

Read in relation to his imploration to Dongguan cadres in March 2008, Wang’s use of ‘market rules’ (*shichang guilü*) to justify breaking out of the labor-intensive, export-oriented “path dependency” (*lujing yilai*, the exact equivalent of the term Wang employed) only serves to
reinforce the importance of state intervention in regulation of the Chinese political economy. As he made clear during the Dongguan visit, the reconfiguration of spatial divisions of labor could – and should – involve proactive action on the part of local governments (cf. Guangzhou Daily, 27 March 2008). Furthermore, a clause in “Decisions” specified that the restructuring process required a fiscal injection of 50 billion yuan (~US$7.81 billion) over 5 years. Even with this financial support, there was no guarantee that PRD-based firms – should they not have shut down at all, as have happened to the purported 50,000 firms at the time – would be willing to relocate to less developed regions within Guangdong province. This essentially means the Guangdong restructuring plan – discursively justified as following ‘market rules’ – was (and remains) an experimental project that entailed the state to underwrite the financial risks. Viewed in relation to the discussion on state-directed uneven development in Chapter 2, Wang’s approach underscores how the reconfiguration of regulatory relations does not occur because of “market rules”. As the next section will elaborate, shifting regulatory relations across scales constitute a function and an outcome of central-local politics.

6.3 On the (in)commensurability of spatial restructuring and economic growth

Two contradictions were intrinsic in Wang’s ambitious approach to shape up and ship out industrial actors within the Pearl River Delta at the same time. At one level, it is clear that the pursuit of new competitiveness in Guangdong, which perpetuates the coastal bias in development, contradicts Deng’s 1988 vision of attaining similar developmental standards across the country. As discussed in the previous chapter, Deng pledged to even out income disparities over time. In approving new initiatives for to enhance economic-geographical advantage in the Pearl River Delta over other parts of China, however, the Chinese central government was effectively entrenching the preexisting uneven development. In a sense, it could be argued that the central government was ‘locked in’ to its earlier choice to privilege Guangdong in its industrialization policies. As the host of industries that employ the majority of the domestic ‘floating population’ (ref. Chapter 5), it would not be easy to allow
deindustrialization to occur in Guangdong without first establishing alternative employment opportunities elsewhere. While attempts were launched at the same time in interior China, spearheaded by the rescaling of Liangjiang New Area, but it was arguably a longer-term solution (ref. Chapters 8 and 9).

More pressing for national policymakers, however, was the primary injunction of bringing in ‘upgraded’ industries while *simultaneously* relocating undesirable industries away from the PRD. It must be noted that this injunction in “Decisions” was in itself an experiment: ‘emptying the cage’ was not only an intra-provincial issue, it would generate direct impacts on national employment given Guangdong’s position as the top destination for migrant workers (ref. Chapter 5). The primary goal of this injunction, as Wang made clear through the *People’s Daily* in October 2008, was to preclude industrial ‘hollowing out’ (see section 6.2). While theoretically sound, it was unclear how the injunction could be put in practice: firms began to shut down, and replacements were hard to find in a period of immense economic uncertainty. Even if high-end industries were willing to move into the PRD, emerging empirical evidence at the time indicated it would occur only after a time lag. It was for this reason, as shall be elaborated shortly, that the central government became concerned with the reconfiguration process. How, in the midst of economic slowdown, could the local governments across the province “strongly develop advanced manufacturing industries, high-order advanced technological industries, modern services and equivalent high value-added industries” (“Decisions”, n.p.; author’s translation)?

Within two months of the implementation of “Decisions”, there was widespread speculation that the local government in the manufacturing hub of Dongguan had begun ‘driving away factories, driving away people’ (*ganchang ganren*). Local cadres purportedly went about ‘encouraging’ enterprises to relocate. The industrial ‘hollowing out’ was arguably intensified by two developments, namely 1) the claim of one Dongguan cadre that discussions were underway to halve the city’s population [from 12 to 6 million]; and 2) the sudden appearance of extra-provincial officials to entice Dongguan-based firms to leave Guangdong
altogether (Interview, planner A, Shenzhen, January 2013). These developments impelled Jiang Ling, a CPC cadre and then Vice Mayor of Dongguan, to issue a full-page clarification of the city’s restructuring policies in a local newspaper in July 2008 (see Figure 6.2). Clearly a bid to ensure social stability (and indirectly to assure senior leaders in Beijing that economic instability was not occurring at all), the rare occurrence of a CPC cadre publicly defending the state’s policies only accentuated the difficulty – if not impossibility – of attaining simultaneous industrial relocation and upgrading.
The reconfiguration of industrial structure in Dongguan is not about ‘driving away factories, driving away people’.

Vice Mayor clarifies three major ‘misunderstandings’.

Misunderstanding 1: ‘Driving away factories, driving away people’ theory

Misunderstanding 2: ‘Coercive government’ theory

Misunderstanding 3: ‘Enterprise hollowing’ theory

Figure 6.2 Rare occurrence: full page local government clarification of ‘misunder-standings’ of industrial restructuring in Dongguan in Xinxi Shibao (29 July 2008). English captions by author.
The Guangdong government’s ambitious post-crisis restructuring approach not only worried local government officials, it raised the concern of national policymakers. Following the announcement of “Decisions”, then-Premier Wen Jiabao made two separate trips to Guangdong in July and November 2008 in an official bid to ‘investigate and research’ (diaoyan) the economic situation in the province. For a senior CPC leader to visit a location within China twice in one year is rare; to do so twice in 5 months is of significance. In his July 2008 visit, less than two months after the launch of “Decisions” in Guangdong, Wen made clear his feelings on how to proceed with managing the financial crisis:

Guangdong’s socio-economy...is confronted with new challenges. The slowdown in the global economy and contraction in external demand has pronounced impacts on export-oriented medium to small enterprises in the PRD. The proportion of non-state linked medium and small enterprises is more developed in Guangdong. Currently these enterprises are faced with more difficulties, hence support must be enhanced through credit, taxation and industrial policies. (China Securities Journal, 21 July 2008)

During his second visit and, interestingly, in the company of Wang Yang, Wen Jiabao issued a public reminder that “the problems and difficulties facing medium and small enterprises have not been fundamentally resolved, their production and management situations remain grave. On this, there should be high-level focus and a continuation of initiatives to help these enterprises overcome their difficulties.” (People’s Daily, 17 November 2008). Wen’s proposed response, while appearing conservative and paternalistic, was actually predicated on a major principle of governance in China. Contrary to popular conceptions that the CPC prizes GDP growth above all else, any government official in charge of economic development would first be evaluated on his/her ability to maintain social stability – i.e. social relations conducive to perpetual CPC rule – before GDP results are evaluated (cf. the reference to Four Cardinal Principles in Chapter 2). It would not cut with senior policymakers if economic growth is delivered on the back of social unrest. It was precisely this fear of social unrest that motivated Wen, the country’s top-ranking official in charge of economic development, to adopt a position that placed social stability as the first priority.

Assessed in retrospect, Wen Jiabao’s comments in November 2008 exemplify the cross-scalar tensions involved in geographically-specific reconfigurations in China. It was most
likely a targeted response to Wang’s elaborate view on the issue just a day before Wen’s arrival in Guangdong. Made during his visit to the city of Zhanjiang, Wang Yang was defending the Guangdong government’s approach to manage medium and small enterprises within the policy framework of ‘double relocation’:

Some people say this year alone [2008] 50,000 firms shut down, whether this figure is true is one matter, everyone should seriously analyze this: amongst those firms that have shut down, how many of them are large-scale firms? None! In my prediction, these [fallen] firms were mostly lagging productive forces. The cyclical extirpation of lagging productive forces is an effect of market economic forces. (Guangzhou Daily, 14 November 2008)

As has become a distinctive pattern throughout his tenure in Guangdong, Wang (once again) peppered his explanation in Zhanjiang in relation to “market economic forces”, as if the market has objective rules of its own that the state must follow:

30 years ago, we chose the market economy and consequently enjoyed the joy of fast-paced growth. Today we must also courageously confront the pain brought about by cyclical turbulences in the market. Since the Asian financial crisis in 1997, Guangdong has adopted a particular way to run at high-speed, to slow down a little now, to adjust the style and raise the technical capacities suitable for long distance running, this is very normal… the state should never do what the market will not allow, it should never save lagging productive forces. (Ibid.)

Two important points could be identified in Wang’s comments in Zhanjiang. First, it reinforced the fact that economic development in China was never about the ‘free market’ or its supposed corollary, perfect competition. By his own admission, the enterprises hurt most by the ‘double relocation’ were medium and small enterprises; “none” of the large-scale firms were hurt – or, presumably, were allowed to be hurt – by the relocation policies. This emphasis on the survival of large-scale enterprises (of which it was unclear how many were state-owned) reflects a willingness to accept the subservient and vulnerable position of medium and small enterprises – the very enterprises that were supposed to be the centerpieces of a ‘free market’. As such, and this complicates the popular portrayal of Wang as a market-oriented reformer, the undercurrent of the restructuring approach in post-2007 Guangdong was decidedly protectionist. In fact, the intention was not only to ensure the big businesses (in particular those of the SOEs) were shielded from the crisis – it was to provide them with new opportunities for capital accumulation in the rescaled territories of Hengqin and Qianhai (more on this in section 6.4 and in Chapter 7).
Second, the sequence of development presented in Wang’s comment in Zhanjiang foregrounds how the spatial logic of socioeconomic regulation came about: it was the CPC that chose market-oriented governance, not the other way round. The overarching objective, as discussed in Chapters 2 and 5, was to enable the CPC to remain in perpetual power. At the policy level, this means having to experiment with new ways of engaging market regulatory logics without compromising the stability of the party-state structure. After the global financial crisis in 2008, the Chinese party-state apparatus again found itself having to choose how to strategically reposition economic geographies across the country. Operating within an increasingly open context, however, meant the remaking of state-market relations could not be based on a fixed playbook – governance had to be proactive, opportunistic and experimental at the same time.

And the inherent risks involved in this form of governance explain why the “nationally strategic” designation of reform frontiers entails close central-local collaboration. Indeed, the Guangdong government’s decision to “never save lagging productive forces” and persist in economic-geographical reconfiguration was just as risk-laden as Wen Jiabao’s imploration to keep medium and small enterprises with new policy initiatives. Senior policymakers thus had to take a chance on whether the tentative approach in Guangdong would reproduce – if not enhance – national economic growth. Just days following Wen’s November 2008 visit, Wang offered an oblique counterpoint that effectively emphasized his decision to take this risk and literally see how the situation goes:

> Amongst these debates, some are for, some against. I thought about it, over the three decades of ‘opening up’, Guangdong has embarked on its own path, so let others do the debating. Right now it is still the same, we are taking our own path, a path of scientific development, so let others do the debating. Regardless of what others say, the ‘double shifts’ must be emphasized, ‘emptying the cage and changing the birds’ must be emphasized. We must never launch just about anything in order to guarantee GDP growth. (Nanfang Dushibao, 21 Nov 2008)

Wang’s insistence was the final straw for some senior members of the Politburo. On Christmas day of 2008, the People’s Daily published a critical commentary – rarely leveled against senior CPC cadres – making clear their views on Wang’s restructuring plan:

> Just a while ago, medium and small enterprises encountered external and internal difficulties and
were effectively immobilized. This especially applied to labor-intensive medium and small enterprises labeled as ‘two highs, one low’ [high pollution, high energy usage and low efficiency], they were viewed as impediments to industrial upgrading. Some places have appeared too hasty in the process of ‘emptying the cage and changing the birds’, this caused a significantly squeeze in the survival space for medium and small enterprises. In the face of the strong force brought about by the global financial crisis, the situation of these enterprises has only exacerbated. (*People’s Daily*, 25 December 2008)

While not mentioning Wang by name, the intended audience of the message was clearly stated through the references to Wang’s ‘emptying the cage to change the birds’ metaphor and the industrial classification term of ‘two highs, one low’ (*lianggao yidi*):

Even if there are indeed medium and small enterprises that embody the ‘two highs, one low’, there should not be a simplistic and brutal squeeze of their survival space. Be it in the enhancement of industrial upgrading or in the relocation of these enterprises, policy and financial support must be given. (*Ibid.*)

Following this public opprobrium, Wang’s tone softened. “Emptying the cage and changing the birds does not mean emptying out all the birds”, Wang explained, “even a fool will not do this” (*WenWeiPo*, 12 February 2009). To emphasize the Guangdong restructuring approach was never a ‘foolish’ strategy implemented through brute authoritarianism. Wang reiterated the stance taken earlier by the Dongguan government:

Even to labor intensive industries and lower-order manufacturing sectors, the ‘empty the cage and change the birds’ method cannot be based on compulsion. Right now no enterprise is forcibly made to move, no enterprise is having its water or electricity supplies cut, our method is to attract through benefits, we tell enterprises the places where operating costs are low, the places where workers are aplenty, in practice we respect the will of the enterprises, the government uses appropriate policies and hope people make these kinds of choices [i.e. relocate]. (*WenWeiPo*, 12 February 2009)

Yet field research indicates that the Guangdong government’s “hope” was transposed officially into a performance target for local government officials: local cadres’ ability to successfully effect the ‘double relocation’ could affect their promotional prospects (*Interview, Planner C*, Shenzhen, January 2013). That local cadres were not all for the ‘double relocation’ policy perhaps made it necessary to include the performance target in their evaluation forms. After all, as Planner C explains, local village collectives have been highly dependent on rental collection from migrant workers in cities like Dongguan, Jiangmen and Foshan, key manufacturing hubs in the GPRD. To push for manufacturing firms and migrant workers to relocate could mean a loss in short-term income if not a local economic contraction, a situation from which Dongguan
has yet to fully recover (Ibid.). In other words, a developmental path had been established in Dongguan that benefited specific interest groups such as village collectives, and naturally these groups resisted change that would compromise their economic interests. It was for this reason that policymakers made it almost mandatory for local officials to fulfill their “hope” that targeted firms would respond to the relocation policies.

It would be useful, at this point, to situate Wang’s restructuring attempt within the broader context of state evolution in China. As the preceding discussion has indicated, while the CPC nationalized means of production during the Mao era, he regulation of socioeconomic life was largely left to cadres in individual communes (Chapters 2 and 4). Deng and his successors would subsequently allow local governments to propose initiatives for reforms (e.g. the nascent attempt to institute the Household Responsibility System in Anhui, the bottom-up suggestions to implement SEZs in Guangdong, etc.; see Chapter 5). In generating this new “political logic” (Shirk, 1993; ref. discussion in Chapter 1), the CPC implicitly created room for what Wedemen (2001) terms “strategic disobedience”.

In China’s long and entrenched hierarchical chain of command, Wedemen (2001: 71) argues, “structurally induced ambiguities create opportunities [for cadres] to engage in willful disobedience because they imply that willful disobedience will go unpunished”. In the case of Guangdong, the entire economy was in a state of uncertainty during global economic slowdown; yet this uncertainty provided an opportune platform for the provincial government to launch its ‘double relocation’ spatial project. As then-Vice Governor Governor Zhu Xiaodan acknowledged, “even without the global financial crisis, it was already time for industrial transformation and upgrading in Guangdong” (Nanfang Dushibao, 8 March 2012). In other words, the Guangdong government already contemplated economic restructuring; the new ambiguities generated by the financial crisis only catalyzed the implementation. Wang put this point into sharper perspective:

Regarding extra-local relocation, if it occurred during the good times enterprises would be unwilling to move, yet if it occurred during economic contraction some enterprises claim to have no ability to move, then no movement will ever occur. Practically the financial crisis has lowered the costs of relocation, adding to this the government is providing a series of preferential policies
In relation to the post-2007 context in Guangdong, however, Wedemen’s (2001) postulation has two limiting assumptions. First, he assumed a directive from the Chinese central government had to be issued prior to any “disobedience”; second, Wedemen took the central government as a unitary unit. Disobedience was therefore a function of and a response to directives from an ostensibly united central government. The Guangdong restructuring process calls for a revision of these assumptions, however. Wang’s apparent “disobedience” was not a lack of “compliance” to an a priori directive from the central government. While the strongly-worded response in People’s Daily may be read as a central government directive to the Guangdong government, the issuance of this directive was actually a response to a bottom-up developmental approach. This cause-effect relation in this process was the direct opposite of Wedemen’s assumption.

In addition, there were strong signs the central government had different views on the restructuring process in Guangdong. Under conditions of ambiguity, as then-Premier Wen Jiabao demonstrated in his response to the global financial crisis, the Chinese central government would most likely be cautious in its response. This corresponds to Wedemen’s proposition. However, as will be shown shortly, Hu Jintao’s subsequent endorsement of the Guangdong project indicates not all policymakers within the central government believed in a cautious response to ambiguities. ‘Disobedience’ from lower hierarchical levels could thus be symptomatic of differences within the top echelons. Whether its unrelenting stance vis-à-vis calls to help medium and small enterprises would morph into a form of “disobedience” – and hence become subject to what the CPC calls ‘party discipline’ – was contingent on its ability to capitalize on planning uncertainties within the central government.

More accurately, then, the Guangdong government’s apparent “strategic disobedience” expresses the dynamic politics of launching experimental developmental projects in China (cf. Chapter 2). It demonstrates how a proposed change in regulatory logics at one scale
(Guangdong) inevitably triggers a response from another (the central government). This phenomenon corresponds with Peck’s (2002: 340) observation that “the present scalar location of a given regulatory process is neither natural nor inevitable, but instead reflects an outcome of past political conflicts and compromises”. Yet, as the next section will explain, “strategic disobedience” did not occur for its own sake. Along with the ‘double relocation’ project, Wang simultaneously launched the ‘scaling up’ of territories deemed “strategic” for the reforms of national institutions. What was initially a provincial-level concern (economic restructuring) was turned into a national issue in order to gain central governmental support - this is a defining characteristic of what the next section terms ‘decentralization as centralization’ (cf. Chapter 2).

6.4 The politics of producing ‘nationally strategic’ socioeconomic spaces in Guangdong

As it soon became clear, Wang’s overt unwillingness to follow Wen’s advice led to speculations over differences in the central government’s view of Guangdong’s ‘double relocation’ approach. When then Chinese president Hu Jintao visited Guangdong in March 2009, Wang said in Hu’s presence that “last year [2008], during which our province was confronted by the global financial crisis and was faced with its most difficult moment since the turn of the century, the General Secretary [i.e. Hu] entrusted comrade [Li] Changchun to conduct an investigation of Guangdong and, based on his report, clearly issued opinions that guide our work in Guangdong.” (Yangcheng Wanbao, 7 March 2009). No mention was given to Wen’s two trips to Guangdong in 2008; Wen’s aforementioned instructions to save medium and small enterprises affected by the global demand slump also did not figure in Wang’s speech. This omission is significant in three ways.

First, the most literal point was that Wen Jiabao did not visit Guangdong with Hu Jintao’s instructions; Hu only “entrusted” Li Changchun, another senior cadre in the Politburo, to visit Guangdong by the Hu government. Second, Wang was indirectly saying Wen’s comments had no impact on his or Hu’s view on Guangdong’s policies – only Li Changchun’s report had any impact. And this leads to the third point: the central government’s eventual
guidance for Guangdong did not include Wen’s advice. That Wang could take this daring discursive step strongly suggests he had the full support of the Chinese president in the central government. In turn, it suggests the central government was unsure of its strategic response to the global financial crisis. To be sure, where political polarization existed within the central state apparatus, it did not paralyze the proposed restructuring project in Guangdong. If anything, as Hu put it in his second visit to Guangdong in 2009, it *propelled* the project in a forward motion:

> In confronting the global financial crisis, the Guangdong government emphasized seizing the favorable circumstance induced by the crisis to reconfigure and enhance the industrial structure and transform the mode of economic development...I think your reasoning is very good, you have to persevere, always move ahead, and truly give a good fight in this tough battle of transforming the economic development approach. To gain awareness early, to act early, is good proactivity. (*Guangzhou Daily*, 30 December 2009).

Hu’s affirmation did not mean Wang’s restructuring strategy was objectively correct; what it did was to mark the central government’s final position along the spectrum of opinions on China’s post-crisis development. With this affirmation, any speculation of uncertainty within the central government was quelled. Full-fledged restructuring, as indicated by economic-geographical transformations within Guangdong, was identified as the way forward.

At one level, Hu’s decision could be taken as a victory for bottom-up governance in China: the Guangdong government successfully pushed through its restructuring agenda and ‘won’. Perhaps more significantly, the crisis offered an opportune moment for the Guangdong government to create new ‘scaling up’ opportunities as *part of* the restructuring project: while the reported large-scale shutdown of enterprises may constitute an excruciating short-term blow to employment and income, the Guangdong policymakers simultaneously sought to ease the economic pain by imploring the central government to demarcate Hengqin, Qianhai and Nansha as “nationally strategic”. This active engagement with the central government complicates simple models that view centralization and decentralization as a binary (ref. review in Chapter 2). As the case studies in this dissertation shows, local governments seek not to create autonomous ‘feudal economies’ (*jingji zhuhou*) — there are immense political and economic incentives to ensure their local developmental agendas are aligned to, if not at the forefront of, macro developmental goals set by the central government (cf. Shirk, 1993; Huang,
In this regard, state rescaling becomes a function of a political system that prioritizes local policy experimentations in the name of the ‘national interest’.

Field research reveals Wang Yang had a direct role to play in the national designation of Hengqin and Qianhai. As a Shenzhen-based planner explains, Wang targeted and was intent on setting Guangdong’s two Special Economic Zones (SEZs) – Zuhai and Shenzhen – on new developmental trajectories:

When [the Guangdong Party Secretary] Wang Yang first went to Zuhai in April 2008, he claimed ‘Zuhai must open up a new path that is different from others in the PRD’, the next year [in April 2009] he claimed Zuhai had enhanced its positioning on the back of its past developments and the future is to be desired. A few months later the Hengqin development project was announced. (Interview with Planner A, Shenzhen, January 2013)

Similarly, the spatial relationality of Qianhai only changed after Wang Yang identified it as a strategic location for cross-scalar interaction:

The Shenzhen authorities have long viewed Qianhai as a good location, but it was only in August 2008, when Wang Yang specially came to inspect the area around Qianhai and Shekou [the original site of Deng Xiaoping’s pioneering reforms in Shenzhen] that he pinpointed Qianhai to be the principal fulcrum of Shenzhen’s institutional innovation. Thereon he called for a deeper consideration of how Guangdong, Hong Kong and Shenzhen could develop cooperation avenues. Because of this Qianhai’s development finally appeared on the planning agenda, it also finally brought into practice cooperative planning, which people have paid lip service to for years, between Guangdong and Hong Kong. (Ibid).

Through successfully pushing for the ‘scaling up’ of Hengqin and Qianhai (and later Nansha), it could be argued that the Guangdong government had adroitly coalesced two complementary spatial projects in order to ensure the province retains its leading economic position within the economic planning hierarchy without experiencing either structural unemployment or GDP decline (see next section).

The situation becomes nuanced when assessed from a cross-scalar perspective, however. As Peck (2002: 338) has observed, “socioregulatory processes operate across scales, rather than being confined to a particular scale, highlighting the need to consider the relative power of scale-based rule systems vis-a-vis that of scale-bound actors, agents, and institutions, a relationship that is often an asymmetrical if not a hierarchical one.” Hu’s embrace of radical change could not be reduced to an unproblematic approval of policies proposed by the “scale bound” Guangdong government; indeed, he arguably embraced change only
because new economic-geographical conditions to retain capital – which in turn supports employment, the key source of social stability – within Chinese state spatiality have become possible. It is in through this approach that the Guangdong government generated “relative power” vis-à-vis the central government. This phenomenon corresponds to Peck’s (2002: 340) observation that:

Even if the prevailing pattern of change in the contemporary rescaling process is national-glocal, this does not mean that the national state qua scalar actor ceases to play a significant role. Rather, its role is reconceived and restructured, in part to engage in more active processes of scale management and coordination at the local and international levels.

If anything, the ability of the central government to grant provincial and municipal governments the authority to launch new policy innovations exemplifies its “reconceived and restructured” role. This arguably contains echoes of a Mao-era mode of spatial organization that treats local governments as ‘cellular’ units (cf. Donnithorne, 1972; cf. critical review in Chapter 2). As one experienced urban planner in China remarked over a lunch conversation, “whenever the central government launches a project, many people at the local level automatically respond with much fervor. There is no problem getting people [at the local scale] to do things” (personal communication, Beijing, 2012; author’s translation). Zhou Xiaochuan, Governor of the People’s Bank of China (PBoC), puts this local-scale fervor in comparative perspective:

The enthusiasm for reforms is very high at the local and grassroots levels, many provincial and urban governments and some organizations are earnestly requesting experimental grounds for reforms. Amongst the reasons is a common recognition that only through reforms would the consolidation of local economic development be possible, that it would be possible to push through various endogenous innovations and sustain local social stability. This point differs from some eastern European countries, in these countries a particular term known as ‘reform fatigue syndrome’ (gaige pilao zheng) has emerged, people are no longer motivated by or confident about reforms. In China, however, there is a lot of enthusiasm for reforms in all kinds of domains, proposals come incessantly from the grassroots level, in the hope that higher-level governments would allow them to launch experimental reforms. (Zhou, 2012: n.p.; author’s translation)

Viewed against this broader backdrop of intense inter-governmental competition across contemporary China, this dissertation argues that the ‘double relocation’ strategy was a means to achieve rescaling. The pain of relocating undesirable industries in Guangdong was gradually eased because the ‘scaling up’ of Hengqin, Qianhai and Nansha as “nationally strategic new areas” guaranteed a significant amount of fixed capital investments (see Figure 6.3). This in turn kept GDP figures positive in spite of the financial crisis. To this end, Wang had to enroll the
economic and extra-economic institutions of the central state apparatus into the “double relocation” process. On one hand, Wang needed the central government’s political support to rescale new competitive geographies in Guangdong. On the other, the financial support of key central government-owned enterprises – expressed through loans or direct investments – was required to implement the proposed national designation.
Figure 6.3 Fixed capital formation in Guangzhou, Shenzhen and Zhuhai, 2000-2012. 

Figure 6.4 GDP growth (total and sectoral) in Guangdong, 1978-2012. 
Ironically, as a series of interviews in Shenzhen and Macau revealed, while Wang Yang was espousing the virtues of ‘the market’, the construction projects in Hengqin and Qianhai were made possible by ‘special’ loan approvals from the Chinese Development Bank and the large-scale participation of central government-owned enterprises (yangqi). In addition, locally-based SOEs were allocated land use rights to parts of Hengqin and Qianhai, sensing state rescaling could lead to new profit-making opportunities, these SOEs were unwilling to relinquish their land-use rights to planning bureaus. This problem was particularly acute in Qianhai, where planners faced delays in actualizing their plans due to the conflicting interests between these different state-linked groups. Widely-stereotyped as an embodiment of the CPC’s embrace of deepening marketization, the reforms launched by the Wang administration more accurately reflects how institutional changes underpin the structural coherence of the Chinese central government’s control over Chinese state space (ref. Chapter 2). The CPC, in short, is never independent of the market.

The financial impact of the rescaling was felt almost immediately. Specifically, the rescaling process jumpstarted fixed capital formation in the three cities where Hengqin, Qianhai and Nansha were located, namely Zhuhai, Shenzhen and Guangzhou (see Figure 6.3). For Guangzhou and Zhuhai, fixed capital formation in 2012 more than doubled the pre-crisis, pre-new area level in 2006, while the growth in Shenzhen was just under 100% over the same period. These growth figures for Guangzhou, Shenzhen and Zhuhai was unusually high, considering the three cities were already highly built up. The only exceptions were the areas marked as ‘nationally strategic’, all of which were empty land plots at the onset of the financial crisis. Working from these statistics, the research proceeded to investigate whether short-term fixed capital formation in these three new areas contributed strongly to fixed capital formation of these three cities.

According to an investigative report by Nanfang Ribao (7 November 2013), fixed capital formation in Hengqin between January 2010 and December 2012 exceeded 33 billion yuan (~US$5.45billion); at last count in October 2013, the total figure exceeded 50 billion yuan.
(~US$8.25billion). Measured against the total fixed capital formation statistics for Zhuhai between 2010 and 2012 (in which Hengqin is located), fixed capital formation in Hengqin contributed almost 20% of the Zhuhai total (author’s calculation, in relation to data presented in Figure 6.3). Given the growth in fixed capital formation in 2013 (at 17 billion yuan) already exceeded 50% of the total between 2010 and 2012, the significance of Hengqin New Area as a contributor of fixed capital investments in Zhuhai (and, by extension, Guangdong province) is increasingly pronounced. While figures for Qianhai were not announced, a budgetary plan drawn up by the Qianhai Bureau and the China Development Bank revealed that between 2013 and 2022, 480 billion yuan (~US$79.2billion) would be budgeted for fixed capital formation in the rescaled plot of 15km$^2$. Of this sum, 266.5billion yuan (~US$43.9billion) will go towards basic infrastructural construction (Jingji Guanchabao, 3 August 2012). Quite clearly, then, state rescaling generates a positive economic outcome for local governments in China. Before new regulatory capacities are even introduced in the rescaled spaces, local GDP figures would have inflated because of the large-scale fixed capital investments.

By extension, then, the growth in fixed capital formation associated with economic-geographical ‘scaling up’ produced a trend that contrasted those of most crisis-hit city-regions in East Asia. According to official figures revealed by the Governor of Guangdong, Zhu Xiaodan, more than 7000 firms were relocated (though it was unclear whether they relocated within the province or moved to other regions within China) between 2008 and 2012, while a staggering total of almost 80000 firms either stopped operations or shut down during the same period (WenWeiPo, 26 January 2013). Intriguingly, against these signs of economic contraction, GDP and employment growth in Guangdong remained positive through the post-crisis period (i.e. 2009 to the time of writing). This is a clear instance in which, as Chapter 3 makes clear, the inconsistencies in quantitative data becomes a finding in itself.

On one hand, Zhu’s report reinforced what former Party Secretary Wang Yang – the chief architect of the restructuring program – said in relation to potential short-term shifts in restructuring: “the state will not save lagging productive forces”. On the other, it justified Wen’s
concern that economic restructuring would significantly affect the livelihoods of medium and small enterprises. Yet statistical calculations from the Guangdong Statistical Bureau painted a beautiful picture: the GDP for all major economic sectors grew (see Figure 6.4). More importantly, contrary to Wen’s public announcement that 200 million people in China was unemployed in 2010 alone, there was no reported decline in the unemployment of registered residents in the Pearl River Delta (no mention was given to the number of migrant workers ‘relocated’ from the city-region, interestingly). Something had to be done to ensure GDP growth was not compromised – and Wang arguably did it through pushing for selected territories to be designated “nationally strategic”. It is in this regard, following Brenner (2004), that state rescaling is not only a medium and outcome of political strategies; to re-borrow Peck’s (2002: 338) terms,这些 political strategies could also be ‘bottom up’ initiatives that respond to and build on the “relative power” of a “scale bound” actor (the Guangdong provincial government, in the context of this paper) within a broader backdrop of uneven development (the Chinese developmental approach characterized by coastal- and urban-bias; ref. Chapter 5).

To understand why the provincial-level income and employment figures remained positive, it is instructive to begin with the announcement that the function of internal demand in GDP-generation grew from 80.4% in 2007 to 89% in 2012 (WenWeiPo, 26 January 2013). This effectively meant, in proportional terms, the total reliance on external demand to generate GDP halved during this period. In the same period, 30000 new enterprises were brought in, generating investments worth 108 times those of firms that relocated or shut down (Ibid.). Read in relation to the 270% growth in fixed capital formation for the Pearl River Delta city-region between 2006 and 2013 (Statistics Bureau of Guangdong, 2014), it can be further ascertained that the Guangdong government’s short-term recovery strategy in the immediate post-crisis period was to ramp up fixed capital formation in what was already a highly developed region. After all, as Niu Jing, Director of Hengqin New Area Administrative Committee, acknowledges, “We need to build a lot of buildings for commercial, residential, hotels and other facilities in the coming years.” (South China Morning Post, 2 September 2013).
Crucially, it was because of the potential GDP contribution that policymakers in Guangdong\(^8\) were willing – and able – to take on the financial and regulatory risks associated with short-term, large-scale fixed capital investments in rescaled areas of Hengqin, Qianhai and Nansha. To finance investments in fixed capital, these governments committed to taking on loans or issue bonds. The Hengqin New Area Administrative Committee, for instance, announced it had plans to issue 1.5 billion \textit{yuan} (~US$250 million) in bonds in Hong Kong and was planning to list a portfolio of property and infrastructure projects on the city's stock exchange in 2014 for about 2 billion \textit{yuan} (~US$310 million) in proceeds (Ibid.). This financing strategy came on top of the “specially approved” loans it had obtained from the China Development Bank to finance earlier rounds of land requisition (Interviews, Macau and Shenzhen, January 2013).\(^9\) Even before business transactions are conducted in the individual new areas, the rescaling process already contributed significantly to the provincial GDP. This underscores the central conceptual point: through engaging the central government in its experimental projects, the provincial government could continue to generate economic growth. Clearly the central government cannot engage all provincial or municipal governments at once in its experimentations, which in turn opens up room for intense inter-territorial competition (the ‘race to the top’ mentioned in Chapter 1). It is in this respect that regulatory relations across scales get re-negotiated in contemporary China.

\textbf{6.4. Conclusion}

State rescaling does not take place in a historical-geographical vacuum – it is a dynamic process generated by domestic and foreign factors (cf. Chapter 2). The first of a two-chapter segment on the economic restructuring in Guangdong province, this chapter illustrated how economic geographies in the province have been proactively reconfigured by different actors since the 2008 global financial crisis. While the ‘double relocation’ spatial strategy was not in itself a form of rescaling, it was a means to do so. For this reason, it is important to understand the politics of this strategy as the constitutive context for the production of three “nationally
strategic new areas”. That Guangdong’s economic-geographical evolution had been driven by labor-intensive and highly-pollutive industries – particularly since the intensification of urban-oriented reforms in the mid-1990s – is well-documented. That this trajectory could not last was also expected. As current Governor Zhu Xiaodan acknowledged, “even without the global financial crisis, it was already time for industrial transformation and upgrading in Guangdong” (Nanfang Dushibao, 8 March 2012). Quite how the province was to undertake structural reforms without losing its economic-geographical importance at the national scale was unknown until the two-pronged restructuring approach became clear by 2009.

For the Guangdong government, the overarching objective of its spatial strategies was to ensure new regulatory incentives for capital inflows were created. The practical goal was to retain the confidence of both the central government and corporate investors in the province as an attractive site of capital accumulation. With the provincial economy increasingly impacted by the 2008 global financial crisis (and which, at the time, showed no signs of abating), Wang made a drastic announcement to manage redundant economic actors as “lagging productive forces” on one hand; on the other, he pushed to bring in higher-order manufacturing and advanced services to replace the ‘relocated’ industries. Some of these incoming industries, as Chapter 7 will show, will be located in Hengqin and Qianhai New Areas. Perhaps most importantly for the Guangdong government, the significant amount of fixed capital investments that followed the spatial reconfiguration enabled positive GDP growth.

In this regard, the attempt to reconfigure central-provincial regulatory relations could be construed as a supply-side attempt by the Guangdong government to sustain economic growth. Yet the production of spatial “rationality” was never a linear and unproblematic approach; as an inherently multi-scalar process, it was subject to much doubt, critiques and counter-arguments from actors positioned at different scales. This underlying tension corresponds to Brenner’s (2009: 48, emphasis-in-original) observation that rescaling does not mean “the replacement of places, territories, and scales by networked geographies but the co-constitutive rearticulation of each dimension of sociospatiality in relation to one another,
through ongoing strategies and struggles over the present and future shape of [uneven spatial development]”. An emergent outcome of these “rearticulation” and “struggles” in post-crisis Guangdong is the simultaneous relocation of labor-intensive industries and the emergence of new “nationally strategic new areas”.

This state proactivity to overcome institutional constraints of its own making is in itself path-dependent: it reflects a Mao-era conceptualization of the entire state territory as a chessboard. As the former Premier Zhao Ziyang acknowledged, the CPC has, since the founding of ‘new China’ in 1949, approached national regulation in relation to strategizing a chess game (see Chapter 5). Because every single move generates its own developmental pathway, it is important to deliberate this move in relation to a broader strategy. Under Mao, this strategy was launched within the context of geo-economic insulation (particularly after the CPC broke diplomatic relations with the Soviet Union in 1960); following Deng Xiaoping’s ‘liberalization’ reforms in 1978, this strategy increasingly had to include the imperatives of transnational capital flows. Unsurprisingly, national-scale governance has correspondingly become more difficult and contradiction-ridden (cf. Oi, 1992; Peck and Zhang, 2013; Zhang and Peck, 2014; ref. Chapters 4 and 5). For this reason, the launch of experimental reforms in Guangdong was not solely an outcome of politics between the central and provincial scale. As the next chapter will show, Chinese state rescaling through Guangdong involved the unprecedented integration of territories external to mainland China.

Specifically, the rescaling process was contingent on the enrolment of two geographically-contiguous but economically distinct systems – Hong Kong and Macau. Given the increasingly pronounced constraints associated with the central government’s strong control of the domestic financial system, this proximity offered the central government an opportunity to deepen its connection with the global financial system through Hong Kong and Macau. To borrow Wang Yang’s terms (cf. section 6.1), it was arguably this geographical advantage that made Hengqin, Qianhai and Nansha “three key chess pieces” that other provinces could never obtain. What, then, are the planned strategic functions of these places in
relation to national and global economy? With specific reference to the new financial reforms in Hengqin and Qianhai, is the Chinese central government aiming to remove the constraints associated with inherited regulatory institutions? These questions will drive the analysis in the next chapter.

Notes

1 The GDPs of Hong Kong and Macau are calculated separately from mainland China.
2 The urban-bias of export-based economic development is reflected in the economic-geographical disparities between the PRD and the rest of Guangdong (see Lu and Wei, 2007; Sun and Fan, 2008). To legitimize the “double relocation” program, the Guangdong government argued that relocating less desirable industries to poorer regions could reduce these disparities.
3 Officially, given the lack of inter-provincial coordination, it has to be stated that relocation policies remain within the province so that the government appears to prioritize the provincial interests. This is an extension of the protectionist, inward-looking tendencies of the Mao era. In reality, however, given the huge difference in infrastructural facilities between the PRD and the rest of Guangdong province, the Guangdong government in fact did not mind if undesirable industries leave the province altogether rather than attempt to upgrade these industries within the province (Interview, academic and regular consultant to the government, January 2013).
4 The official term of this spatial project in Mandarin is <珠江三角洲地區改革發展規劃綱要 2008－2020年>. The cited content is printed on page 7 of the original document; translated by author.
5 This term that would subsequently be widely used to characterize Guangdong’s province-wide restructuring approach.
6 Hu’s support was important at both the personal level and in terms of national economic-geographical reconfiguration. In 2007, when Wang was Party Secretary of Chongqing, Hu approved a series of nationally-strategic socioeconomic policies aimed at bridging the urban-rural divide caused by the Mao-era household-registration (or hukou) institution of population control. That Hu would approve these major reforms during Wang Yang’s term was a glowing recognition of the latter’s efforts at initiating institutional reforms. Ironically, it was precisely the institution Wang tried to reform in Chongqing – the hukou system of demographic control – that enabled the Guangdong government to effect labor force relocation at will (ref. Chapter 4 for an overview of the socioeconomic regulatory logics of this institution; Wang’s role in driving the hukou reforms in Chongqing will be discussed in Chapters 8 and 9). As intimated in Chapter 1, this phenomenon at once exemplifies the fragility and the flexibility of the growth-based social contract in the quest to accumulate capital in China.
7 Hu approved in 2010 the Chongqing government’s proposal to demarcate Liangjiang New Area as a “nationally strategic new area”. Put forth by Wang’s successor, Bo Xilai, and the Chongqing mayor, Huang Qifan, the high profile establishment of Liangjiang New Area was developed in tandem with the large-scale social reforms planned during the Wang Yang leadership. For this reason, Chongqing became a major location for industries looking for more cost-effective locations within China (the Chongqing reforms will be explored in Chapters 8 and 9). Viewed in relation to each other, it is clear that “nationally strategic” reforms in Chongqing and Guangdong were not as antagonistic as portrayed in the popular media. If anything, their roles are complementary.
8 What is intriguing in this instance is the strong willingness of SOEs (including banks) owned by the central government (the yangqiis) to support fixed capital formation in the rescaled spaces. With risks undertaken by the provincial and SEZ governments in Guangdong, the involvement of these SOEs effectively allows the central government to profit from the construction of these rescaled “nationally strategic” spaces. There thus exists a strong economic incentive for the Chinese central government to partake in state rescaling – provided, of course, the local governments do not end up defaulting on the loans they undertook to launch fixed capital investments.
9 The involvement of the China Development Bank in the rescaling process arguably deserves separate research focus. Preliminary verifications of these interview claims showed that a) an initial sum of 200 million yuan was advanced to Qianhai in 2012 for infrastructural construction (<i>21st Century Business Herald</i>, 3 August 2012); b) an undisclosed sum was loaned to the Hengqin planning committee to
compensate those affected by land requisition, the costs of which were also shared by the Macau government (Interview, Macau, January 2013); while an agreement was signed between CDB and Nansha New Area for a loan of 60 billion yuan (Yangcheng Wanbao, 13 November 2013). Rescaling, quite clearly, involves large-scale and recurring financing, and the Chinese central government is in a commanding position to offer this financial support after it consolidated its power through the 1994 fiscal reforms and the deepening of SOE restructuring in 1998 (ref. Chapters 2 and 5). The transference of 'move first, experiment first' regulatory capacities to local scales thus further reaffirms central state power by opening up new opportunities for economic control – this is the defining characteristic of what is conceptualized as ‘decentralization as centralization’ in this dissertation (ref. Chapter 10). By extension, it offers a counterpoint to Breslin's (2007) claim that the Chinese government may not have sufficient agency to direct capital allocation to achieve developmental goals.
Chapter 7
Becoming ‘more special than special’ II: Hengqin and Qianhai as national frontiers of financial reforms

7.1. Introduction

On 25 July 2012, the Guangdong provincial government released for public feedback the draft “Decision on several problems pertaining to the total advancement of financial reforms to enhance provincial development”¹ (hereafter ‘draft Decision’). Building on an agenda approved in June 2012 by the Chinese State Council, this announcement offered a more detailed definition of new economic-geographical developments that built on the ‘double relocation’ program in the Pearl River Delta (ref. Chapter 6). First, it reflects a targeted attempt at reconfiguring national state space. The goal is to address ‘nationally-strategic’ constraints associated with the financial structure. While the ‘draft Decision’ broadly defines Hengqin, Qianhai and Nansha as platforms for financial innovation, each ‘new area’ is to accomplish strategic functions. Policy experiments in the creation of an offshore capital market would be launched in Hengqin; the goal is to allow investment trust funds to be established in multiple currencies, in turn serving as a platform for onward private equity financing on the Chinese mainland. Building on this model, the Hengqin administrative bureau is currently discussing plans to launch a Free Trade Zone (FTZ) in collaboration with Qianhai and Nansha New Areas. Reflecting the intense inter-locality competition within the Chinese political economy, the professed goal of the proposed FTZ is to compete with China’s first FTZ in Pudong New Area in Shanghai.

Connecting to and re-constituting Hong Kong’s RMB credit market is the designated role for Qianhai. The key experimental objective is to test out the financialization of domestic investment projects through offshore RMB trading centers (of which Hong Kong is currently the most developed, with London having just obtained the license to be the world’s second RMB offshore center). If experiments succeed in Qianhai, the CPC would have produced a new

¹ The official term of this cross-border strategy in Mandarin is "關於全面推進金融強省建設若干問題的決定".

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economic-geographical tool. Specifically, new onshore, non-financial ‘backflow mechanisms’ would be established for RMB money markets located in ‘offshore RMB trading, with the CPC having total leverage on the geographies of these ‘backflow’ investments (ref. section 6.2). The experiments in Nansha are more tightly linked to the actually-existing ‘material economy’ (or shiti jingji): it is to experiment with policies that would enhance the functioning of existing and new industries. The primary policy challenge for Nansha, which mirrors the challenge encountered by the entire province, is the degree to which private banks and/or credit houses could engage in the financing of new investments by medium and small enterprises (collectively called zhongxiao qiye in China).

By ‘scaling up’ Hengqin and Qianhai, the Wang administration involved the central government and the two SAR governments\(^2\) in negotiations, with the aim of obtaining the right to experiment with policies that would (once again) place Guangdong at the forefront of national reforms. Primarily this involved obtaining the much-desired ‘move first, experiment first’ (xianxing xianshi) power from the central government. As introduced in Chapter 1, experimental measures not subject to censure could be launched in so far as they were deemed to attain objectives set by the central government. Yet there was no a priori guarantee the Guangdong government could succeed: it had to propose potential areas for reform that the central government would consider to be of national significance. To this end, the Guangdong government sought to address the dilemmas confronted by Zhou Xiaochuan, governor of the People’s Bank of China (China’s central bank) and a key proponent of financial reforms for many years (Interview, Planner C, Shenzhen, January 2013). While keen to push through reforms, Zhou had earlier expressed worries over the tension between integrated, macro-scale planning and bottom-up initiatives:

Because the financial market is based on dynamic flows, regardless of whether reforms are targeted at specific functions or localities, the potential for spillovers is very strong. The original intention of reforms may be to restrict experiments to a particular domain, but the practical

\(^2\) Within the Chinese scalar hierarchy, Hong Kong and Macau SARs are ranked as quasi-foreign entities. This means the SAR governments’ negotiations with Chinese provincial authorities must formally involve the Chinese central government, technically its scalar equivalent (although officially the central government could veto decisions made by the SAR governments).
effects are often uncontrollable, which means there will be positive or negative effects on related domains or adjacent regions. Restricting reformist experiments to specific domains may even result in unfair competition. Which means to say, the financial sector was supposed to be regulated systemically, on the basis of ‘the country as one chessboard’, but in the event that some places enjoy specific reformist policies and some places do not, or they enjoy other types of reformist policies, this may result in the unfair allocation of financial resources. In short, the spillover effect may be quite big and hard to control, and may affect the monitoring and evaluation of reform effects. (Zhou, 2012: n.p.)

Read in relation to the ‘draft decisions’, it becomes clear that the designated areas of Hengqin and Qianhai were geographically-delimited to preclude “spillovers” from policy experimentation. In the Hengqin case, a re-bordering exercise was introduced, while regulations were in place to ensure cross-border credit for investments were circumscribed to Qianhai-based firms. Through this territorial re-scaling, “the monitoring and evaluation of reform effects” would be less problematic. More importantly, locating the reform sites in Guangdong would build on the proximity to Hong Kong and Macau, both ‘free’ economies that are well integrated with the global system of capitalism. For Zhang Bei, the current Head of the Qianhai Bureau, the unique interaction between the national, local and the global (through Hong Kong) is the raison d’être of Qianhai, with geographical advantage distinguishing it from competition elsewhere in China:

From an external perspective, first the RMB internationalization progression is accelerating, which means the window for financial innovation in Qianhai is narrowing; second, different locations are intensifying competition for business capital, they similarly position themselves as sites for modern services, especially finance-related services, leading to homogenizing competition; third, policies are also becoming increasingly similar, in some domains, the support given to some policies are even not as good as those in the mainland.

Similarly, Hou Yongzhi of the Development Research Centre (DRC), a highly influential policy think tank in the Chinese State Council, believes the ‘one country, two systems’ institution involving Macau and Hong Kong was pivotal in the demarcation of Hengqin as a site of financial reforms:

Within the country there are…quite a number of places try to launch the concept of ‘new areas’, Hengqin stands out in two ways, namely the backdrop of the ‘one country, two systems’ institution and the fact that it is based on cross-border regional collaboration. Hence its model can be summarized in two phrases, one, it is only through collaboration that the development of this ‘new area’ could be advanced, and two, it is through the development of this ‘new area’ that win-win frontiers will open up. (Transcribed by Nanfang Daily, 24 August 2012; author’s translation)

This cross-border connection was arguably why the ‘move first, experiment first’ policies were granted to Hengqin and Qianhai ahead of Shanghai, a major municipality directly under the
control of the central government. The proximity would allow the central government to launch and monitor two major reforms, namely capital account convertibility and RMB internationalization\(^3\). In short, the Guangdong government won the ‘race’ for preferential policies because of its ability to benefit from and reshape actually-existing economic geographies. Yet this ‘race’ was only the beginning of the rescaling process; whether the Guangdong government could ensure the rescaled zones could function as sustained sites of capital accumulation on the back of experimental policies was the longer term challenge. This chapter will assess and evaluate the cross-border flows that undergird this challenge.

Divided in four parts, the chapter will first consider in section 7.2 the primary external factor that contributed to the rescaling – the establishment and function of Hong Kong as a designated offshore RMB center. Section 7.3 examines how the re-bordering of Hengqin facilitate economic integration with Hong Kong and Macau. Taking a similar approach, section 7.4 examines the implications of rescaling Qianhai. The two sections will both evaluate whether the new policies will allow the CPC to overcome one major constraint – freedom of capital flows – that confronts its regulation of the national financial structure. The concluding section will then delineate the conceptual contributions of the case analyses and how they connect to the historical-geographical contexts presented in Chapters 4 and 5.

### 7.2 Hong Kong’s emergent functions as an ‘offshore RMB center’

The ‘offshore RMB center’ is an emergent economic-geographical contradiction. It is at once a spatial expression of the CPC’s desire for financial liberalization and a conduit for the CPC to extend its heavy-handed control of financial flows. The geographies of ‘free’ RMB circulation and usage outside Chinese state spatiality must be officially ‘designated’ by the CPC. Hong Kong is the first and, with around 75% of the world’s offshore RMB deposits in November 2013,

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\(^3\) Zhou was the primary proponent and driver of the RMB internationalization drive since 2009. The Qianhai spatial strategy thus dovetailed with and became an exemplification of his plans: it became the first site to test out the creation of ‘backflow mechanisms’ that would in turn enable the Chinese government to retain the fixed exchange rate regime (more on this in the next section).
the biggest designated RMB offshore trading center in the world at the time of writing (FSDC, 2013). London won the right to be the second offshore RMB trading center in October 2013. Many cities in the world – those making active bids are Frankfurt, Singapore and Taipei – are vying for the CPC’s approval to operate new RMB offshore centers. The political decision not to adopt capital account convertibility, an approach long viewed as a disadvantage in international trade, has offered significant geographical leverage for the CPC: it could now determine the flows and fixity of the RMB at different scales (ref. Box 7.1).

Box 7.1 Is capital account convertibility (un)necessary for capital accumulation?

Standard economic textbooks define capital account convertibility as the freedom to convert local financial assets into foreign financial assets and vice versa. Conversion prices are to be determined by the market, without any form of state intermediation or regulation. There are typically three components within the capital account (in some countries also called ‘Financial Account’), namely ‘Foreign Direct Investment’, which encompasses investments in a local incorporated entity or a joint venture with a local entity, and which are deemed unlikely to pull out at short notice; ‘Portfolio Investment’, which covers transactions in stocks and bonds that do not influence the day-to-day operations of domestic firms (i.e. investments that are less than a predetermined % of shares deemed sufficient to give decision-making rights); and ‘Reserve Assets’, which are assets (including foreign exchange reserves) that can only be bought and sold by monetary authorities such as central banks (e.g. the People’s Bank of China). The ‘Capital Account’, like all other components of national income accounting, presupposes the existence of the nation-state: they exemplify and help reinforce state-centricism.

One corollary of capital account convertibility of a particular national economy is the ability of anyone, regardless of citizenship, to freely move the currency of that particular economy across its geopolitical borders without any form of regulatory intervention or barrier. Another corollary is anyone could invest in any asset priced in the currency of the particular economy with a fully-convertible capital account. There are very few economies that adopt this ideal-typical model; even the United States, a longtime proponent of fully-convertible capital accounts, mandates anyone who enters the US with more than US$10,000 to make declarations at border checkpoints. Foreign investments in US-based assets are routinely evaluated in relation to ‘national security’ requirements. Contrary to popular wisdom, there is currently no universal institution that defines and enforces capital account convertibility. The lack of universal adaptation of the ideal-typical model capital account convertibility thus makes it ironic that the model is widely portrayed in the mainstream media as the sine qua non of efficient participation in the global economy. It should more accurately be depicted as a political project to facilitate financial market integration, under the (unproven) assumption that it represents a more ‘efficient’ allocation of financial capital in world markets (cf. Minsky, 1986; Harvey, 2010).

Interestingly, debates on the necessity of full capital account convertibility have become fierce amongst economists (the very inventors of this model). In an empirical analysis provocatively titled “Who Needs Capital Account Convertibility?”, Rodrik (1998) argues that no correlation exists between the openness of countries’ capital accounts and investment amounts or their respective growth rates. Because of this
lack of correlation, it is difficult to ascertain the benefits of an open capital account. Conversely, Rodrik (1998) argues, the costs of open capital accounts are regularly expressed through crises in emerging markets. In the same year, Levine and Zorros (1998a, 1998b) published two studies that demonstrate how capital account liberalization had no effect on investments. The Asian financial crisis – which occurred just as these papers were published – lent further empirical credence to their claims. This important finding extends to the theorization of the Chinese economic growth ‘miracle’, especially in the past decade, within which GDP growth was primarily attributed to large-scale, state-led investments and a selective opening of the capital account (i.e. the FDI component, although it remains subject to regulatory approval and sectoral barriers to entry). It appears quite straightforward, then, to affirm that the ideal-typical model that presents a positive correlative relationship between capital account convertibility and economic growth would not stand up to empirical testing in China.

But the picture gets complicated when one takes into account that Hong Kong and Macau, two economies that come close to fully adopting the ideal-typical model, are extra-territorial jurisdictions of China. The roles of these economies (particularly Hong Kong, though Macau has increasingly become important after it superseded Las Vegas as the largest gambling capital of the world) as conduits of capital flows to/from mainland China are well-known. The more interesting development, as the Hengqin and Qianhai cases show, is the economic-geographical attempt to support the functions of Hong Kong and Macau. Does this attempt suggest the CPC is willing to extend the ‘universalization’ of the capital account convertibility model to the entire state territory, or is it, in its classic Maoist approach to development, an affirmation and negation of this model at the same time?

Source: Author’s compilation

The reason why Hong Kong plays the role as the leading offshore RMB center is geographical as well as historical. Since the 1978 ‘liberalization’ reforms, Hong Kong has been a targeted source of capital as well as the ‘jump off’ point for exports. Its proximity to the SEZs enabled the city to take on new hub-like functions in finance and logistics. Since the 1990s, following deepening reforms of SOEs, Hong Kong became the city of choice for many restructured SOEs seeking equity financing. In 2008, then Chinese Premier Wen Jiabao designated Hong Kong and Macau as the first centers for cross-border, RMB-denominated trade settlements. The scheme was later extended to encompass ASEAN economies, and was officially launched in July 2009. The primary reason why these centers were chosen was to enable Chinese companies to reduce their exposure to the exchange risks of US dollar (cf. Lim, 2009).

4 RMB-denominated trade is a two-way process and includes the use of documentary credits such as letters of credits from the designated economies. On the mainland side, not all firms can participate in this trade; firms must first be approved as Mainland Designated Enterprises (MDEs) and must be based in specific cities (four of the initial five were in Guangdong, namely Guangzhou, Shenzhen, Dongguan and Zhuhai; Shanghai was the other city.). To open a trade account, foreign companies must demonstrate genuine transactions with the MDEs.
This unprecedented policy, as Eddie Yue, Deputy Director of the Hong Kong Monetary Authority explains, injected a fresh dimension to Hong Kong’s role as a hub connecting China and the global economy:

Given the pace of change, it is sobering to recall that it wasn’t until 2009 – not all that long ago – that the Mainland authorities started to allow Mainland corporations to use the RMB when trading with the rest of the world…Over this period of liberalisation, a rapidly growing offshore RMB market has also emerged, centred in Hong Kong. The rising level of RMB trade flows to and from the Mainland has produced an expanding pool of RMB liquidity. And the growing liquidity in the offshore RMB market has led to the development of RMB financing and forex markets, with an estimated daily turnover of around 2 to 4 billion US dollars for spot and forward transactions. (Eddie Yue, Speech on 23 May 2012: n.p.)

With this new development, Yue continues, Hong Kong’s relations with the global financial system received a boost:

More foreign banks are either choosing to have a base in Hong Kong or are using RMB correspondent banking services provided by banks in Hong Kong. As of the end of March 2012, there were close to 200 banks participating in Hong Kong’s RMB clearing platform. Of these, 170 are foreign-owned or located overseas. At the same time, over 1,100 RMB correspondent accounts were maintained by overseas banks with banks in Hong Kong. The amount due to and due from such overseas banks amounted to RMB 128 billion yuan and RMB 146 billion yuan respectively, a clear indication that banks from around the world are using the robust platform and large liquidity pool to offer RMB services to their customers at home. (Eddie Yue, Speech on 23 May 2012: n.p.)

At the core of the RMB settlement processes in Hong Kong is a new market-based institution for the RMB. Known as the ‘offshore RMB market’ or CNH, it allowed the RMB to be traded at market prices. The rate in the mainland, dubbed CNY, continues to be subject to constant intervention by the People’s Bank of China. Two geographically-differentiated exchange rates thereby coexist for the RMB, with the rate in Hong Kong always lower than that on the mainland. As a result, new opportunities for exchange rate arbitrage emerged. Since the RMB is under constant pressure to appreciate, a distinct CNH-CNY spread currently exists. Because less RMB is needed to buy the same amount of US dollars in Hong Kong than in the mainland, a now-common response from importers in the mainland would be to purchase US dollars in Hong Kong to pay for their imports. As an interviewee explains (Interview, planner B, Shenzhen, January 2013), a typical strategy of arbitrage involves the ‘round-tripping’ of commodities (which correspondingly also leads to the inflation of trade figures discussed in Chapter 2):
• Step 1: A Chinese merchant borrows US$1 million from a bank based in mainland China. S/he then changes the funds at an onshore rate of US$1: RMB6.25, buying RMB6.25 million.

• Step 2: The Chinese merchant’s offshore company in Hong Kong buys a specific amount of gold valued at RMB6.25 million. This gold is then re-sold to the merchant’s mainland Chinese firm at RMB6.25 million, for processing in one of Shenzhen’s three ‘bonded ports’. No import taxes are incurred on the transaction.

• Step 3: The merchant’s HK company instantly changes the RMB6.25 million ‘revenue’ back into US dollars at the lower offshore rate of US$1: RMB6.1. This buys US$1.024590. The RMB6.25 million becomes ‘offshore RMB deposits’ in the HK capital market.

• Step 4: In Shenzhen, the gold is re-processed into simple jewelry and re-exported to the merchant’s HK company at a valuation of US$1 million. The deal is settled in US dollars, which sees US$1 million flow from HK to China. From this re-exporting process, the mainland company makes US$24590 (US$1.024590m – US$1m). The HK company then re-sells the processed jewelry to retailers at higher than US$1m, or holds it until gold prices rise higher than the original US$1 million value before melting and selling the gold. More profits are made on the HK side.

As Figures 7.1 and 7.2 show, the concentration of RMB deposits and authorized RMB business operators surged after the 2009 cross-border trade announcement. At the time, there was an added incentive for foreign businesses to hold the RMB – the widely-held sentiment that the RMB was undervalued and would eventually be revalued or be increasingly priced by market forces (ref. Lim, 2010). When expectations of sharp revaluation did not become reality (the Chinese state continued to resist international pressures to ‘free float’ the RMB), RMB holdings in Hong Kong dropped between November 2011 to August 2012. This underscores Minsky’s (1986: 228) observation that “everyone can create money; the problem is to get it accepted.” That “problem” was soon eased after the Hengqin and Qianhai financial reforms planned were unveiled in July 2012. In what appears to be a highly-coordinated move, the Hong Kong Monetary Authority announced on the same day as the Hengqin/Qianhai unveiling that non-residents in Hong Kong were allowed to purchase unlimited RMB at the offshore rate (Bloomberg, 25 July 2012). Given the new Hengqin and Qianhai policies present
unprecedented re-investment channels in the Chinese economy for investors based offshore, a second surge in RMB holdings in Hong Kong began and continues at the time of writing (ref. Figure 7.1).

To follow Harvey (1982), capital that is invested in one location inevitably generates new pressures to flow. Given the rapid increase in RMB concentration in Hong Kong, new reinvestment mechanisms for offshore RMB deposits in Hong Kong must be established in order to retain interest in using the RMB as a means of exchange. Current data reveals RMB-denominated cross-border settlements between Chinese mainland firms and Hong Kong clearing institutions to be only 10% of the 400 billion (~US$66billion) in daily RMB settlement, with 90% being “purely offshore” (China Daily, 18 October 2013). This means RMB settlements predominantly circulate either between Hong Kong and overseas financial markets or among overseas markets via Hong Kong.
Figure 7.1 Total RMB deposits in Hong Kong, 2004-2013.
Source: Hong Kong Monetary Authority. Author’s graphical and textual illustration.

Second surge in RMB deposits after financial integration plans with Hengqin & Qianhai were announced in tandem with the RQFII
Expectations of RMB appreciation abated; lack of re-investment opportunities on the mainland led to temporary dip in holdings
Chinese Premier Wen Jiabao launched pilot cross-border RMB trade settlement: RMB deposits began steep surge

Figure 7.2 Number of authorized RMB business operators in Hong Kong, 2004-2013.
Source: Hong Kong Monetary Authority. Author’s graphical and textual illustration.
There are two paradoxical reasons for this phenomenon. First, foreign companies and banks are increasingly willing to transact in the RMB, in anticipation that its exchange value will increase vis-à-vis that of the dollar (the value of which has depreciated steadily over the last decade). Second, RMB flows outside the mainland financial system are ‘trapped’ as they could not find adequate investment opportunities in the Chinese economy. In Harvey’s (1982) parlance, there are few ‘spatial fixes’ for this circulatory capital. To encourage more merchants and institutions to conduct RMB-denominated transactions, more onshore-offshore ‘bridging’ mechanisms had to be introduced in order to direct some of these “purely offshore” transactions into the mainland Chinese economy.

Prior to new channels introduced in Hengqin and Qianhai, the primary ‘bridging mechanism’ in a designated RMB offshore trading center was the granting of licenses to companies that qualify as a “Renminbi Qualified Foreign Institutional Investor” (RQFII). RQFII-licensed firms could channel RMB funds raised in the offshore trading center (at present Hong Kong and London) into securities markets within mainland China. At the onset of its launch in December 2011, the quota for reinvestment was set at a relatively low 20 billion yuan (~US$3.3 billion). Subsequent demand saw the quota revised twice within the next year; by November 2012, the quota for RQFII funds stood at 270 billion yuan (~US$45 billion).

Specifically, RQFII funds must invest primarily in RMB-denominated bonds, bond funds and/or shares issued in mainland China. Offshore RQFII holders (typically multinational banks like HSBC and Standard Chartered) may issue public or private funds or other investment products using their allocated RQFII quotas. Non-RQFII activities in the offshore RMB centers are geographically-delimited to those centers, e.g. RMB-denominated bonds issued within Hong Kong or London (also known as ‘dim sum bonds’ for their relatively small size relative to bonds issued within mainland China), the ability to open RMB bank deposit accounts, etc. Non-RQFII financial products are significantly less attractive because they cannot be re-invested into non-financial sectors within the Chinese economy. Owing to appreciation expectations and the new opportunities for investment in RMB-denominated assets in the mainland through the
RQFII policy, RMB deposits and bond issuance in Hong Kong have increased correspondingly.

The logic that undergirds the RQFII initiative is straightforward: it allows the CPC to determine RMB ‘backflow’ channels in the first instance. And it was arguably this initiative that set the precedent for the Qianhai policies. The ability to control ‘backflow’ mechanisms would enable monetary policy to be implemented more effectively even as the RMB is ‘internationalized’. This contrasts the approach of governments adopting a fully-convertible currency, in which the currency could technically remain in offshore capital markets and be immune to the objectives of domestic monetary policies (the US dollar and Japanese yen are two clear examples of this offshore-onshore disconnect). Eddie Yue of the HKMA acknowledges the fundamental role these ‘backflow’ mechanisms play in the functions of an offshore RMB market:

\[T\]he offshore RMB market is a market of a currency that is not yet fully convertible, and the links with the onshore financial markets are still subject to limitations. The RMB is convertible in respect of the current account and certain capital account items such as direct investments, while other flows like portfolio investments can only be conducted under specified quotas. The opening up of even more channels for two-way flows between the onshore and offshore markets would be required to spur offshore RMB activities.

As Yue continues, this development is the outcome of the CPC’s willingness to break out of its self-instituted path of capital controls:

A few years ago, these ideas would have sounded difficult, but today we are edging ever closer to realizing many of them, which is indicative of the rapid pace of change in the offshore RMB market. But as we all recognize, this will be a paced process and not something that would or should happen overnight. On this front, the HKMA has been engaging with Mainland Chinese authorities on further expanding fund flows between the onshore and offshore RMB markets. (Eddie Yue, speech on 8 May 2013)

Viewed in relation to the HKMA’s push for more “two-way flows between the onshore and offshore markets”, this dissertation argues that the Hengqin and Qianhai financial reforms constitute spatial strategies to “further expand fund flows between the onshore and offshore RMB markets”. The implementation of these strategies strongly suggest the backflow mechanism offered by the RQFII – which is limited only to investments in securities markets in China – is in itself insufficient. As mentioned earlier in this section, the primary reason is economic-geographical: the RQFII scheme does not allow the CPC direct influence over where
funds are to be invested within Chinese state space. In other words, the CPC is trying to broaden the scope of backflow mechanisms that offer more flexibility to respond to uneven conditions across the concrete (non-financial) economy. If the Hengqin and Qianhai experiments were successful, the CPC would obtain new economic-geographical leverage: it could direct RMB-denominated portfolio investments to targeted locations within China, with the associated risks underwritten by investors based offshore.

At the macro-level, then, RMB offshore centers function as an economic-geographical paradox: the ‘freedom’ enjoyed by institutional investors to invest in China is a function of the CPC’s control of the Chinese financial system. This contradiction challenges one widespread speculation, namely that these centers exemplify the Chinese central government’s inevitable embrace of full capital account convertibility (ref. Box 7.1). It might be more accurate, rather, to conceptualize these new economic-geographical expressions as the experimental ‘offshoring’ of centralized financial control. According to observations from Chan Yan Chong, an analyst of Chinese financial reforms at the City University of Hong Kong, the Chinese central government is not about to release the brakes on capital account convertibility any time soon:

So far, at least 31 mainland cities have vowed to be China's next financial centre. However, to this day Hong Kong can still only operate a very limited yuan business because the central government has a very cautious attitude towards the convertibility of the yuan. The Binhai New Area in Tianjin vowed to build a world-class financial centre by allowing mainland investors to directly invest in Hong Kong's stock market, but it eventually fell into disuse because Beijing didn’t want to make a hasty decision on the convertibility of the yuan. (Interview with South China Morning Post, 5 September 2012)

As the next two sections will argue, the rescaling of Hengqin and Qianhai must be assessed in relation to 1) Hong Kong’s evolution as an offshore RMB center designated by the Chinese central government; and 2) Macau’s growing importance as a global hub of capital concentration after its gambling industry became the biggest in the world (by revenue) since 2007. As early as March 2008, a reporter from the BBC Chinese service noticed Wang Yang, then newly-appointed Guangdong Party Secretary, actively engaging the Chief Executives of Hong Kong and Macau at the annual national meeting in Beijing. The situation was uncommon given the three leaders had just met two months before. Not long thereafter, Wang pronounced
the future of the GPRD should be reconfigured “from the perspective of the world” (BBC, 22 April 2008).

It is now increasingly clear that the state rescaling through Hengqin and Qianhai is defined by the simultaneous realignment of central control and local developmental agendas. For the central government, the production of these territories is part of a broader experimental attempt to produce ‘backflow channels’ for the RMB through the “perspectives” of Hong Kong and Macau. Capitalizing on the national concern to institute ‘backflow channels’ by locating the first of these channels just across the Hong Kong and Macau borders with the mainland, Wang was not only able to gain a ‘first mover’ advantage over other provinces; the transfer of “move first, experiment first” power to Hengqin and Qianhai arguably cushioned the economic blow generated by the ‘double relocation’ restructuring policy through bringing in new fixed capital investments and guarantees of further RMB inflows from Hong Kong and Macau (ref. Chapter 6). Whether liberalization ultimately occurs at the local level will not be under the purview of the provincial government – it has been ‘scaled up’ to a national issue.

At the theoretical level, the production of Hengqin and Qianhai raises a broader question pertaining to macroeconomic governance in China: is full capital account convertibility really the end goal of financial reforms in China? Or could capital account convertibility be averted – and hence allow the CPC to retain full price-setting power on the domestic RMB exchange rate – because new ‘backflow’ spatial fixes could be found? As Box 7.1 indicates, there is no scholarly consensus that full capital account convertibility confers an automatic competitive advantage in the current global economy. The experimental economic geographies of Hengqin and Qianhai could thus further challenge predictions that financial reforms in China will produce a historical inevitability – a fully convertible RMB.

7.3 At once within and without: the ‘extra territorialization’ of Hengqin New Area and its role in cross-border financial integration

Following the approval of the development plan for Hengqin in 2009, the island is quickly evolving into a free trade zone and a huge capital market. On 23 May 2012, the Zhuhai
government promulgated the “Administrative Measures on Business Registration in Hengqin New Area of the Zhuhai Special Economic Zone” (hereafter “Measures”). As reflected in the “Measures”, the threshold for business registration was lowered and the registration procedures simplified. The entwinement of a "liberalized" registration system and a "stringent" supervision system, in the official parlance, was intended to establish a solid foundation for the creation of an international business environment in Hengqin New Area. Yet it was clear right from the beginning that this “liberalized” environment could not exist if Hengqin remained integral to Chinese state spatiality ‘proper’. To change economic life, the CPC must first change space.

The centerpiece of the production of Hengqin New Area was arguably its extra-territorialization. From the 2009 plan, it was clear that the most striking policy innovation lies in the formation of special immigration and customs clearance rules for between Hengqin, Zhuhai Special Economic Zone (SEZ) and Macau SAR. An unprecedented phenomenon in the history of ‘new China’, the objective was to create a new regulatory space in economic actors from the Chinese mainland could freely enter and engage in production and trade without going through immigration. Only goods going in and out of Hengqin from the mainland side are subject to checks and taxes; there is no stipulation of the amount of RMB these actors could bring into Hengqin, a development which will be central to financial reforms (more on this shortly).
Figure 7.3 New economic geographies in the (re)making: the confluence of Zhuhai SEZ, Hengqin New Area and Macau SAR
Source: Author’s photograph, January 2013. Vantage point from Hengqin Bridge, looking east.
Figure 7.4 The detailed plan of Hengqin New Area, with indicators of new custom regulatory measures implemented in 2012.

Source: Reproduced from Zhuhai Housing and Urban-Rural Planning Construction Bureau (2009: 12). Author’s illustration in English.
From the vantage point on Hengqin Bridge, Figure 7.3 shows the confluence of the three emerging geo-institutionally differentiated territories. The overall plan for Hengqin New Area, which includes a marking of the photographic vantage point, is illustrated in Figure Y. A new “second line” customs post to inspect the flow of goods to and from Hengqin would be completed by 2014. The location of the post, just by the Hengqin Bridge, is visible in the foreground of Figure 7.3. It is adjacent to the new Shizimen Business District, strategically located within Hengqin’s new borders to capitalize on and effect the special policy provisions on the island. This customs post will clear goods to be imported into and exported out of mainland China proper. Immigration checks will occur only at what is officially termed the “first line” border between Hengqin and Macau (ref. Figure 7.4). As Table 7.1 shows, a trial scheme of localized rules on imports, taxation and immigration was launched in Hengqin on 1 August 2013. Under the new regulations, machinery and equipment imported for use in Hengqin infrastructure and in manufacturing plants will not be taxed. Consumer goods and construction materials imported from Macau will not be exempt from tax. Companies located on the mainland side will still have to pay import and sales tax on products that are manufactured and processed on Hengqin.
Table 7.1 Key aspects & implications of newly promulgated “On Measures to Supervise and Administer Hengqin New Area by the Customs of the People's Republic of China (Trial Run)”, launched 1 August 2013

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<th>Aspects</th>
<th>Corresponding articles in ‘Measures’</th>
<th>Implications</th>
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| Two-tiered cross-border movements of goods and people | • Article 2: The customs shall subject these measures to the supervision and checks of transportation equipment, cargo, articles moving in and out of Hengqin, as well as the supervision and checks of enterprises and places in Hengqin that are registered with the Hengqin customs.  
• Article 3: “First line” regulation is established between the Hengqin and Macau customs; “Second line” regulation is established between Hengqin and other places within the People’s Republic of China (hereafter ‘external places’). The customs shall implement differentiated regulation on the principle of ‘first line loosening, second line control, human-cargo segregation, and regulation by categorization’. | • Unprecedented cross-border arrangement for a territory previously located within the Chinese mainland  
• Underscores the importance of ‘free’ flows of commodities and capital (expressed in the flow of more affluent and more skilled visitors from HK & Macau) in an increasingly open economy |
| Geographical determination of commodity inflows | • Article 9: Apart from the following goods, the customs shall manage all other goods are tax-free or tax-protected: 1) Consumables and goods used for private real estate construction; 2) Goods that are not legally allowed to be tax-free or tax-protected; 3) The list of goods deemed not to be tax-free or tax-protected by the Ministry of Finance, the Tax Bureau, the Customs and related departments  
• Article 10: Apart from those stated in the law, administrative legislation and other regulations, no importation quotas or approval documentations are needed for cross-border movement of goods into Hengqin. Cross-border movements of goods out of Hengqin are subject to export quotas and approval documentations. | • Subjects foreign banks to the mandated geographies of investments/loans  
• Interestingly, the flow of finance – which is technically a commodity – is not restricted between mainland China ‘proper’ and Hengqin; this omission explicitly allows Hengqin to serve as a platform for RMB ‘internationalization’ |
| Key regulatory emphases | • Article 31: All measurements (termed ‘customs statistics’) are confined to the movement of physical goods; no reference made to movement of financial capital | • Facilitate integration of production networks, particularly with firms registered in Macau and Hong Kong |

Source: Articles from General Administration of Customs of China (GACC); author's translation and analysis.

The experimentation with new trade and currency flows through Hengqin illustrates the same caution exercised by Deng Xiaoping in 1978: the engagement with transnational capital flows are to be spatialized in targeted territories rather than enforced nationwide ‘in one cut’ (yidaoqie). This caution raises two interrelated questions on contemporary Chinese socioeconomic reforms. First, does the formation of ‘free’ economic spaces like Hengqin
indicate further concessions by the CPC to the pressures of transnational capital, or are these spaces reflective of the CPC’s attempt to influence the global flows of capital through place-specific experimentation? Second, does the willingness to experiment with currency convertibility inside Hengqin signify an advanced step toward full capital account convertibility at the national scale, or does it reflect a nascent tendency to institute capital account convertibility only in places the CPC deems suitable for its macroeconomic regulation?

While it is not possible to arrive at definitive answers in this nascent period of reforms, specific signs and contradictions are emerging. After the newly-promulgated customs regulations, equity fund investment guidelines and policies on currency flows are compared, it is clear that the role of Hengqin is to ‘extend’ the deep and well-developed capital market in Hong Kong into the mainland. The new financial regulations stipulate that Fund Enterprises can invest in non-listed companies, private placement stocks issued by listed companies and engage in other relevant services in accordance with the relevant State-level regulations governing portfolio investments by equity funds. This offers a new avenue of investment for Hong Kong-based institutional investors, particularly those without the permission to invest directly in the Chinese financial markets (ref. section 7.2).

At one level, these new provisions are similar to those promulgated in the ‘new areas’ of Binhai (in Tianjin) and Pudong (in Shanghai). Two features stand out, however. First, special provisions are given to financial institutions based in geographically proximate Hong Kong and Macau. Working in tandem with newly-promulgated labor regulations to allow professionals from Hong Kong and Macau to be treated as ‘extra territorial’ personnel in Hengqin (i.e. they will be subject to the personal income tax rate of Hong Kong and Macau instead of those in mainland China), equity funds and fund management companies in Hengqin can directly access the much developed labor market in financial services in Hong Kong (and on a smaller scale, Macau). This is very similar to what Sparke (2006) terms “business class civil citizenship”, or the NEXUS partnership, that enable approved individuals in the US and Canada to work relatively freely across borders.
Second, firms investing in Hengqin’s financial services could enjoy a flat corporate income tax of only 15%, an unparalleled comparative advantage vis-à-vis two of the mature “nationally strategic new areas”, namely Pudong and Binhai. With these policies, the Chinese government is, in the words of an interviewee in Macau, literally “serving up China’s PE market at the door steps of Hong Kong and Macau” (Interview, Academic B, January 2013, Macau). Yet it is important to note that the creation of PE hubs do not translate into capital account convertibility. All venture capital (in RMB or foreign currencies) must still be subject to monitoring by the officially termed ‘custodian banks’. Relative to Qianhai, which functions narrowly as a new credit market for institutions based in Hong Kong and Macau (more on this shortly), the experimental policies in Hengqin facilitated the creation of a new capital market.

Crucial to this new capital market, however, is the continued restrictions of capital circulation to and from Macau and Hong Kong. It could thus be argued that the financial reforms in Hengqin are not novel. Rather than institute unregulated currency convertibility, experiments with ‘free’ convertibility are at present circumscribed to the opening of bank and credit card accounts in either the Macau pataca or Hong Kong dollar. Furthermore, the Hengqin authorities must first approve banks that could issue these ‘foreign’ currencies. A Shenzhen-based planner who participated in discussions on the Hengqin plans sums up the current stage of uncertainty:

If you look at the official document, the positioning of Hengqin’s development states that ‘on the premise of cooperation, innovation and services, Hengqin’s locational advantage to connect Guangdong with Hong Kong and Macau should be maximized; this should enhance tighter cooperation and integrated development with Hong Kong and Macau, gradually develop Hengqin as a first-mover in liberalization reforms and scientific innovation, and enable Hengqin to become a new model for developing the ‘one country, two systems’ institution.’ You can see that these points are all macro overviews, or, in other words, vague. Particularly unclear is the point about ‘one country two systems’, what are the forbidden zones of this ‘new model’ in the modification of the ‘one country, two systems’ institution? Be it at the level of Guangdong province, or Shenzhen, Zhuhai and other cities that are linked to Hong Kong and Macau, what are the areas that are allowed to achieve breakthroughs in reform? I think even the central government doesn’t have the answers. (Interview, Planner B, Shenzhen, January 2013)

Placed in relation to the offshore RMB institutions in Hong Kong, it is unclear what function Hengqin would play to deepen financial integration in the GPRD. Going by the view of Niu Jing, Director of Hengqin New Area Administrative Committee, the successful engagement of Hong
Kong appears to be highly significant in the Committee’s plan: “[w]hile Macau is our closest neighbor, Hong Kong is our partner” (South China Morning Post, 2 September 2013). An analysis of the experimental policies indicates, however, that Hengqin is not in a position to function as an independent offshore RMB center like Hong Kong. With reference to Figure 7.4, the existence of a porous ‘second line’ border means it could not function as a delimited ‘spatial absorber’ of offshore RMB backflows like Qianhai (see next section). Indeed, despite the re-bordering guidelines introduced in Table 7.1, RMB flows into Hengqin could ‘leak’ back to the mainland relatively easily through the ‘second line’ border (Article 31 indicates no controls on domestic currency flows in and out of Hengqin are instituted). Indeed, as one Macanese legal consultant points out, Hong Kong was first an ‘offshore’ financial center before it formally took on RMB businesses, whereas Hengqin was never institutionalized as a unique offshore economy like Hong Kong:

Actually one important reason why Hong Kong became the official offshore RMB accounting center a decade ago was because a lot of RMB was already in ‘illegal’ circulation. And now they are saying Hong Kong’s global financial standing will benefit from its ability to push forth ‘RMB internationalization’. But Hengqin has neither the growing offshore RMB supplies nor an existing offshore financial system, so its ability to become an offshore RMB center is dependent on the scale of offshore RMB transactions it can accommodate. This will depend on two things, whether the national financial policymakers have such a vision [of Hengqin as an offshore center that will be eventually like Hong Kong] and whether the major financial institutions are willing to locate there. Without these factors, things will not work out, there will be no independent financial market in Hengqin. (Interview, Macau legal consultant and academic, January 2013; author’s translation)

This observation is important in two ways. First, Hong Kong’s emergence as an offshore RMB center in 2003 was not only unintended outcome, it originally was not part of a “nationally strategy” to facilitate ‘RMB internationalization’. To be sure, the emergent pool of RMB deposits was only ‘illegal’ relative to the PRC’s law to strictly confine the circulation within domestic borders. That this ‘illegality’ is now taken as a competitive advantage for Hong Kong is not only ironic in itself, it reflects the contradictions associated with the CPC’s existing financial regulations.

As discussed in section 7.2, the growing impetus to reduce transactions through the US dollar entailed the creation of new channels to enhance the cross-border flow of the RMB. The
actually-existing ‘illegal’ concentration of RMB in Hong Kong thus provided a good platform from which to begin: if more investors could freely access the growing concentration of RMB in HK and re-direct these investments into the Chinese mainland, trade settlement through the RMB would increase. Hong Kong-based investors could in turn take on the risks of investing in the Chinese mainland (via Hengqin’s emerging PE market) without having to first convert US dollars into RMB. Similarly, if firms based in Hengqin could access offshore RMB funds in Hong Kong through loans or issuing bonds, there would be an added avenue for the CPC to direct the ‘backflow’ of RMB from offshore locations.

By extension, then, the reforms in Hengqin represent an attempt to test if deeper integration with offshore capital markets (currently Hong Kong and Macau) could occur without compromising the CPC’s need to retain control of the domestic financial system. While these reforms are highly contingent on Hong Kong’s role as the designated ‘offshore transaction center’ (li-an jiesuan zhongxin), it is unclear how Hengqin would function as a strategic “partner” in ‘internationalizing’ the RMB relative to Qianhai (see Figure 7.5; section 7.4). Unless offshore RMB can flow freely into the PE capital market in Hengqin, following which new onward investments – which, as Figure 7.5 shows, functions as the 'leakage' of offshore RMB funds into the mainland – in non-financial sectors could be made, it appears Hengqin’s primary function may be to facilitate free trade. If so, it is not a revolutionary phenomenon, given that ‘bonded ports’ across China perform exactly the same role.

Viewed in relation to regional economic integration, the financial reforms in Hengqin seem to have the strongest impact on the Macau financial sector at the time of writing. As one interviewee states, “Binhai and Shanghai are at the end of the day hubs created by the Chinese government for the Chinese mainland, the Hengqin institutions operate on the basis of extending the long-term prosperity of Hong Kong and Macau and the Chinese government’s commitment to diversify Macau’s economic structure” (Interview, Academic A, Macau, January 2013). Indeed, following the implementation of the Guangdong-Macau Cooperation Agreement, Macanese banks now enjoy distinct entry preferences in Hengqin. Rather than an act of
financial ‘liberalization’, this move must be understood in the context of the CPC’s commitment to “preserving the long-term prosperity of Hong Kong and Macau”, as (re)institutionalized in the 12th Five Year Plan (2011-2015) and reflected in practice through a quasi-free trade agreement known as the Closer Economic Partnership Arrangement (CEPA). This point is well summed up by Mr. Ip Sio Kai, Deputy General Manager of the Bank of China (Macau branch):

The value of requested year-end total assets for Macao banks that wish to set up a branch or station a legal representative on Hengqin has been reduced to US$4 billion. This is the only mainland region for which CEPA has cut the access threshold for banks. It is also a new policy tailor-made for Macao so as to support the growth of the banking industry by providing it with greater development opportunities...[Before this agreement] Macao-owned banks can only engage in securities and futures margin deposits in mainland China as a bank branch, so the reduction of the access threshold is very helpful for the expansion of this business as well. With permission to set up consumer finance companies in Guangdong, Macao’s financial institutions will access the mainland financial market easier so as to expand consumer finance business. (Interview with Macau Image, February 2013: n.p.)

Specifically, as Ip and a Macau-based legal consultant adds, the preference policies for Macanese banks play a similar role to the function in Qianhai, namely the ability for an offshore provider to extend cross-border credit to a targeted location on the mainland. Just like the offshore providers of credit in Qianhai are circumscribed to Hong Kong-based financial institutions, the cross-border flow of credit from Macau into Hengqin applies primarily to Macanese firms setting up operations in Hengqin:

The existing CEPA framework permits the following types of loans, namely, consumer loans, mortgages, brokerage and financing of business transactions. As a testing ground for financial innovations, those that set up on Hengqin are in a position to experiment with cross-border loans for enterprises based there. This means that any local businesses [from Macau] setting up on Hengqin can continue to rely on their familiar financial service providers and get more cross-border services and support. (Ibid.)

While agreeing the involvement of Macanese banks is positive for the small and previously constrained financial sector in Macau, the Macau legal consultant adds that this involvement does not translate into ‘free’ capital flows (a precondition of capital account convertibility):

They lowered the barriers to entry for Macau’s banks, their involvement [in Hengqin] is interesting, once they have set up shop they would be able to support foreign investments on the island on the basis that regulation of these investments would be thin, if non-existent. It also allows Macanese banks to grow their RMB reserves. I think how these banks engage in business in Hengqin will shape the Chinese government’s thinking on capital account convertibility. But it’s still a very controlled experiment, you know, any inflow and outflow of RMB capital will only be limited to Hengqin. And if you look around, you will see the big state banks are here too. I don’t know how they will engage in support of investment projects and conduct the free conversion of currencies in Hengqin without simultaneously feeding the information back to authorities on the mainland. (Interview Macau legal consultant and academic, January 2013, emphases added)
The retention of formal monitoring channels notwithstanding, another practical issue with deregulating capital flows between Macau and Hengqin is the extent to which they would replace existing channels of informal flows. The channels for informal flows of currency in and out of the country have existed since the Mao era. Over the past decade, however, these flows have assumed distinct forms. In Zhuhai, the city within which Hengqin is located, a vast underground foreign exchange network in the Gongbei border zone with Macau has been in operation for more than a decade. Following the relaxation of restrictions for cross-border travel in the late 1990s, informal currency flows in this border zone have grown significantly. Exchanges of a few thousand US dollars now take place over the counter, in full view of the public. Larger sums of exchange (more than US$100k per transaction) would take place behind closed doors; hired runners could deliver the foreign exchange or RMB to hotels in Macau or Zhuhai (personal conversation with exchange vendor, Zhuhai, January 2013).

Unlike currency exchanges in banks, where the exchange of any amount of foreign currency entails an identity card (for Chinese citizens) or a passport (for foreign visitors), these over-the-counter exchanges operate on a no-questions-asked basis. No checks are required and only rudimentary receipts are issued (if at all). There is no upper limit to the amount that could be exchanged, which strongly suggests the vendors have access to a large liquidity pool that is unregulated by the Chinese state apparatus. Or rather, as the Bank of China report mentioned in Chapter 1 suggests, the authorities have long known of such unregulated channels of capital flows but choose to overlook it. Borge Bakken, professor of criminology at the University of Hong Kong, puts the situation in perspective: “If you have the political connections in China, it’s quite easy to get away with these things. There are thousands of ways to get money out of the country” (Global Post, 19 April 2012).

The existence of this fluid network of cross-border currency flows in and through Zhuhai thus exemplifies the ease in which ‘hot money’ could flow in and out of China, just like it would in any ‘free’ economy. The strong onshore demand to convert RMB into foreign exchange is
matched by significant demand for these RMB in the ‘shadow banking system’, which is essentially an unlicensed, “back alley’ banking network that seeks to grant loans to high-risk customers (cf. Tsai, 2004):

There is a lot of demand for credit from small businesses on the mainland side, they pay up to 20% in interest, way higher than the bank rate. But there is also strong demand for loans in the formal banking sector. Because there is now strong demand for the RMB in Macau, if the RMB ‘makes a run’ across the border, it will bring in foreign exchange, which can buy more RMB on the mainland side. This is one key reason why the underground exchange network is thriving. And all these came before the Hengqin project, actually what is happening in Hengqin is of no interference [to this network], they run separately. (Interview Macau legal consultant and academic, January 2013)

If the Hengqin reforms are not intended to undermine these informal channels of currency flows in Zhuhai, how would they enhance the national financial sector? A highly plausible logic is the lack of an underlying intention to lift capital controls. Indeed, the Zhuhai channel notwithstanding, another major avenue for hot money inflows through fake invoicing of exports has also been prevalent for at least a decade. As is well-documented, the hub of fake invoicing is in the Shenzhen-Hong Kong border region, less than an hour away from Hengqin by fast-boat (cf. Figure 6.1, Chapter 6). As illustrated in section 7.2, one strategy of exchange rate arbitrage is to ‘export’ to a subsidiary in Hong Kong; others simply send lorries of exports across Hong Kong-China border, before having the lorries perform a U-turn and transport the goods illegally back into China. If an ‘exporter’ performs this ‘one day tour’ with US$1million worth of goods 10 times, this would mean with one batch of goods s/he had exported US$10million on paper. The export invoice could then be used as collateral to obtain loans of US$10 million (or its RMB equivalent) in the Hong Kong capital markets (where interest rates are very low relative to the rates issued by the state-linked banks on the mainland).

By the end of November 2013, China's State Administration of Foreign Exchange (SAFE) announced it uncovered 1,076 instances of false reporting by 112 companies, adding up to $2.5 billion (The Wall Street Journal, 16 December 2013). The more realistic figures appear to well surpass this official account. According to Global Financial Integrity (GFI), a non-profit institute in Washington DC that specializes in researching the illicit flow of money in developing and emerging economies, the trend of hot money inflows in China since 2006 is
positively correlated to the US ‘quantitative easing’ strategies (i.e. expansion of monetary supply). The primary mechanism to facilitate these flows, as GFI economist Brian LeBlanc explains, is through fraudulent invoicing:

How big is this hole in China’s capital controls? Although no estimates from SAFE [the Chinese Government’s regulatory body] were provided, over-reported exports are easily detectable through a comparison of bilateral trade statistics. A comparison of China’s trade with Hong Kong shows that an alarming $101 billion of exports simply disappeared at the Hong Kong border in 2012 alone, with an additional $54 billion smuggled in during the first quarter of 2013. The cumulative amount of foreign exchange brought illicitly into China masked as trade payments from Hong Kong since the first quarter of 2006 adds up to an astounding $400 billion. Putting this into perspective, the $101 billion of foreign exchange brought in through illicit exports represents about 40 percent of the $253 billion of legal net FDI that China received from abroad during the same year. Such large sums of money have the potential to be destabilizing, and are most likely being used to fuel further currency and housing speculation within the country. (LeBlanc, 2014: n.p.)

Interestingly, SAFE did not repudiate the GFI study. Neither did it repudiate a Credit Suisse (2013) study that identified a growing trend in ‘alternative lending’ vis-à-vis that of the formal banking system. Viewed in relation to arguments that capital account convertibility is necessary for economic growth, the GFI and Credit Suisse research strongly suggests economic growth occurs because of capital controls: the resultant ‘hot money’ inflows drive the concrete economy in China in the shadow banking and real estate sectors and directly influence domestic inflation rates. The only effect of capital account controls is it enables the CPC to determine the exchange value of the RMB and while retaining the independence to set interest rates.

Against this backdrop, the transfer of new regulatory capacities to Hengqin would at best be to experiment with new methods to control cross-border financial flows. Without a simultaneous attempt to clamp down on informal flow channels (through fake export invoicing and the vast underground exchange network) and tighten currency controls at the ‘second line’ border (ref. Figures 7.3 and 7.4), the policy experiments to relax movements of currencies in and out of Hengqin would always be a step behind – if not totally independent of – ‘hot money’ flows (ref. Figure 7.5). Then again, given the CPC’s unrelenting stance on the fixed exchange rate regime and capital controls, that might just be the intention.
Figure 7.5 New spatial logics of financial regulation in the GPRD: the emergent functions of Hengqin, Qianhai, Macau and Hong Kong
Source: Author’s illustration
7.4 Qianhai New Area as an onshore ‘spatial fix’ for offshore RMB flows

Following the designation of Qianhai as a “nationally strategic” experimental zone, 50% of the demarcated 15 km² area was allocated for use by the financial industry (for geographical positioning, see Figure 7.6 below). Another sizeable land area was demarcated for a ‘bonded port’, which means goods can come in and out of Qianhai without tariffs, so long as the goods do not make onward movement into the rest of China (see Figure 7.5). The Qianhai Financial Industry Plan identified the internationalization of the renminbi (RMB) as the top priority for the experimental zone’s policy reforms. 22 preferential policies were eventually conferred by the Chinese central government to support the cross-border financial integration with Hong Kong (see Table 7.2). In January 2013, the first cross-border RMB loan scheme was launched — 15 Chinese companies located in Qianhai borrowed a total of two billion yuan from 15 banks based in Hong Kong. At the same time, the central government approved another of Qianhai’s policy proposal: certain state-owned financial institutions could now raise RMB in the Hong Kong capital market and establish a ‘fund of a fund’ (similar to a private equity fund) in Qianhai.

Both projects promote the flow of the RMB back to the mainland from Hong Kong, where a substantial and rapidly growing amount of RMB reserves have accumulated (ref. section 7.2; the specific regulations and implications are listed in Table 7.2). As mentioned earlier, geographical proximity to Hong Kong was listed as the top reason for the national designation of Qianhai (cf. section 7.1). As Wang Jinxia, the spokesperson for the Qianhai Management Authority (QMA), puts it: “It can be said that independent of Shenzhen-Hong Kong cooperation, Qianhai will no longer be Qianhai, it will no longer have any competitive advantage” (Caixin, 28 June 2013). The former QMA chief, Zheng Hongjie, puts this relational positioning in more elaborate perspective:

The service sector takes up 92% of GDP in Hong Kong relative to 55% in Shenzhen. Over the past 30 years Shenzhen and Hong Kong have cooperated to relocate manufacturing industries northwards, right now Qianhai could do similar explorations for modern service industries, we feel that this positioning is accurate. Regarding financial development, RMB internationalization is now on the agenda and is progressively implemented. Hong Kong is a global financial center, hence Qianhai can make use of its standing and its strength to experiment with new onshore-offshore services, this has received the support of the ‘one bank & three commissions’ [the acronym for the four major institutions regulating the national financial sector, namely the
Further research into the financial reform policies reveals a blurred picture beyond the initial boost in fixed capital investments in Qianhai, however (cf. Chapter 6, section 6.4). With reference to Table 7.2, while the Qianhai cross-border loan policies nominally preclude further onward ‘leakage’ into mainland China (ref. Figure 7.5, Table 7.2), there are at least two possible ways firms could overcome these regulations. First, there is no requirement in the regulations that state suppliers of Qianhai’s construction projects need to be located in Qianhai. In other words, investments would eventually be expressed physically in Qianhai, but the suppliers involved in the development projects could be registered elsewhere in China. If the Qianhai-based firm is also related to or made arrangements with its supplier(s), then money can be channeled through easily. Second, once the loans have been actualized, they need not be immediately invested in the construction projects. This raises the possibility that the funds could be directed to other uses. So long as the borrower can pay the interests, no alarm bells would ring, not in the short term at least.

Another major issue lies in whether the new policies could jumpstart interest rate liberalization onshore. Shortly after the first-wave cross-border loans from Hong Kong, the People’s Daily (29 January 2013) termed the reforms in Qianhai “interest rate liberalization accelerated”. Speaking to China International Business (19 April 2013), Stephen Wu, a currency trader with Bank of China, claims:

(Launching the offshore yuan lending programme) is a key step in gradually opening the country’s capital account. It’s also a major development in liberalizing the mainland’s interest rates, as firms were allowed to fix their own lending rates for the first time. In doing so, they were free to disregard the official rates set by the People’s Bank of China (PBoC), China’s central bank.

Interest rate controls undergird the CPC’s ability to launch independent monetary policy. To be sure, ‘independence’ in the Chinese context is a paradox: the PBoC is embedded within the party-state apparatus, which means its strategies are inevitably extensions of rather than truly independent from political considerations. In addition, the four biggest commercial banks in
China are all state-owned and are responsible for loans to state-owned enterprises, further blurring the notion of ‘independence’ between the CPC and the financial system.

A new contradiction emerged in July 2013 when China-based banks were allowed to lend at rates that they wish. While this technically meant interest rate liberalization has occurred in the Chinese financial system, its impact is expected to be minimal since the majority of loans continue to be priced at or above the PBoC-set benchmark rate (New York Times, 21 July 2013). In other words, even with nominal ‘liberalization’, so long as the commercial banks (most of which are state-owned or state-linked) remain entwined in a state-governed system involving the PBoC, the CPC could still directly influence interest rate-setting and credit creation. Because of this multi-layered entwinement between financial institutions and the party-state apparatus, it is hard for one aspect of reform to set in motion a systemic overhaul. On the contrary, this development reinforces the possibility that policy changes were made to enhance CPC control of the existing regulatory system (cf. Chapters 1, 2 and 6).

It is in relation to private sector economic activities that the PBoC retains true ‘independence’. Through interest-rate targeting and another major macroeconomic policy, capital controls, the PBoC is able to strongly influence the supply and allocation of private capital within China. And it is arguably this ‘independence’ that is subject to regular critiques by the international community. The former US Treasury Secretary, Henry Paulson, recently framed ‘interest rate liberalization’ in China as a ‘necessity’: “What we need – and the people I talk to in Beijing understand this – is interest rate liberalization. If it's not done early, it sends a very negative signal.” (The Wall Street Journal, 6 June 2013).

Understanding is different from acting, however. The Chinese government has shown clearly through its unrelenting grip on both the existing macroeconomic regulatory mechanisms and the barriers to entry into the banking industry that the domestic financial system remains off-limits. Ironically, it could be because of this backdrop of persistent state intervention in the financial industry that the Qianhai reforms sent positive signals that China is about to institute a cross-border interest rate liberalization. After all, it was the first time that firms in the Chinese
mainland could benefit from competitive lending rates truly independent from PBoC-influence. These signals in turn raise a broader question regarding structural reforms: if interest rates in the mainland economy are to be increasingly determined by the market (hence the ‘liberalization’ mentioned above), does this mean that there is an imminent attempt to either remove the fixed exchange rate regime or effect free capital flows?
Figure 7.6 Qianhai New Area (left) and its position within the Shenzhen municipal plan (2010-2020).
Source: Shenzhen Press Group and People’s Government of Shenzhen Municipality; author’s illustration in English
<table>
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<th>Aspects</th>
<th>Corresponding articles in 'Measures'</th>
<th>Implications</th>
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| Key actors involved in cross-border loans denominated in Chinese renminbi | • Article 2: Qianhai cross-border loans in RMB refers to domestic firms that, having fulfilled required conditions, borrow RMB funds from Hong Kong banks that offer RMB-related services. The domestic firms that fulfilled conditions refer to those established in Qianhai and are in operation or directly invested in Qianhai.  
• Article 5: Under the guidance of the People’s Bank of China (PBoC), the Shenzhen PBoC branch in downtown Shenzhen will supervise services involved in cross-border RMB loans | • Unprecedented process for domestic PRC firms, although another* regulation was promulgated in June 2012 for foreign-owned firms to borrow RMB from offshore centers, irrespective of their geographical operations within China  
• Opens up new – if still small – financing channels for domestic firms  
• Increases risk exposure of foreign banks to the credit creation process within China; deepens economic integration  
• Chinese central government remains in direct control of capital flows through Shenzhen PBoC  
• Subjects foreign banks to the mandated geographies of investments/loans  
• Enhances central governmental ability to shape uneven economic-geographical development through the regulation of financial flow and fixity  
• Freedom from domestic interest rate controls entails subservient to a new regulatory barrier: to be approved to do business in Qianhai |
As the policies in Hengqin already suggest, the financial reforms in the GPRD do not undermine the existing national institutions of fixed exchange rate and capital controls (ref. section 7.3). On the contrary, these reforms could reinforce the continuity of these institutions. Nationwide interest-rate liberalization could actually generate two contradictions for Qianhai as an RMB backflow channel. First, a fully 'liberal' interest rate regime would mean no a priori necessity for firms on mainland China to borrow from Hong Kong-based banks – firms could obtain loans from any bank in the world that offers the best interest rate. Interest-rate liberalization would thereby undermine Hong Kong's role as an offshore RMB center. Second, interest rate liberalization involving both onshore and offshore lenders could undermine one of the two other forms of financial regulatory tools currently employed by the CPC, namely the dual institution of capital account control and the fixed exchange rate regime. Capital could flow to offshore RMB centers that offer higher interest rates, in turn undermining the existing control on portfolio in- and outflows and, by extension, the RMB exchange value. Yet if interest rate 'liberalization' were instituted only within mainland China, as it is at the moment, this would render the Qianhai experiments unnecessary.

Further observations suggest deeper structural changes will not take place in the short run, at least not via the reforms in Qianhai. Speaking to Reuters (15 August 2013), an unnamed Hong Kong-based banker makes it clear that current cross-border loans to Qianhai-based may reach its geographical limits if no further modifications are made:

Infrastructure construction in Qianhai is the first stage for loans and after that, you'll have to allow broader use of these loans to facilitate operations and trade. After all, Qianhai is a very small area in Shenzhen, just like Central in Hong Kong. A company can set up an office there, but its factories in other mainland cities also need financing.

To Jin Xinyi, a member of Shenzhen's Chinese People's Political Consultative Conference, Qianhai plays a distinct economic-geographical function:

The Qianhai project is an experimental economic zone with the clear goal of making the yuan a global currency, instead of a pilot project for administrative and legal reforms...Institutional reform in Qianhai will only focus on those fields that promote the city's modern service industry and industry upgrades and enhance cooperation between Shenzhen and Hong Kong. Hopes are

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5 This was the process that undermined the entire Thai economy within a very short period in 1997 and set in motion the Asian financial crisis.
slim that concrete administrative and legal reforms will follow in Qianhai. (*South China Morning Post*, 11 May 2013)

In addition, while the Qianhai-Hong Kong flows are supposed to be two-way, the other direction of flow – namely the ability for Qianhai-based firms to invest directly in the Hong Kong financial markets without regulation – remains subject to the central government’s control (ref. Table 7.2). This control in itself is an encumbrance to deeper financial integration in the GPRD. In late November 2013, the Hong Kong Financial Services Development Council (FSDC) proposed to the Hong Kong government to lobby Beijing to approve a program dubbed “Qualified Domestic Institutional Investor 3” (QDII3). Building on the preexisting QDII program that allows selected mainland Chinese firms to make portfolio investments abroad, the FSDC would like Qianhai-based investors to be able to make up to 50 billion RMB-denominated investments (~US$8.25 billion) and up to 5 billion dollar-denominated investments per year (FSDC, 2013: 6).

As the FSDC (2013: 5) explains, there is a pressing need to enhance the flow of RMB into Hong Kong: “Most financial institutions which engage in the renminbi business in Hong Kong consider the lack and instability of renminbi liquidity the biggest bottleneck of the offshore renminbi market”. Going by the observation of an experienced Hong Kong-based venture capitalist, the cautious approach of the Chinese government may mean it would be quite a while yet (if at all) for this “bottleneck” to be removed:

This scheme is great, it will attract many financial firms to apply to move to Qianhai in order to enjoy access to the Hong Kong financial market. Going by the way things are done, there is a good chance that, once approved, the quota will go up. But Beijing has still not approved the QDII2 scheme [an earlier proposal to allow offshore portfolio investments from Guangzhou and Shenzhen]. They said they will approve it in 2012, and we still have not heard anything. QDII3 will not become reality so soon. (Email correspondence, 15 December 2013)

In view of these “slim hopes” of concrete administrative and legal reforms and the limitations internal to the first-wave cross-border loan reforms, this chapter argues that Qianhai exemplifies the pairing of an onshore ‘spatial fix’ with a predetermined offshore location – Hong Kong, in this instance (ref. Figure 7.4). It is far too premature to identify it as an attempt to attain nationwide onshore interest-rate liberalization. The creation of Qianhai essentially offers Hong Kong-based banks transacting in RMB a ‘spatial fix’ for their RMB holdings. Priority is
clearly given in the first instance to investors based in Hong Kong, with the overarching goal being to entice these investors to hold the RMB and subsequently direct them back to targeted geographies in the PRC.

To be sure, the establishment of these onshore enclaves of offshore RMB investments could never guarantee success \textit{a priori}: it is contingent on whether offshore investors are confident in profiting from the backflow channels identified by the CPC. Furthermore, as the same Hong Kong-based venture capitalist mentioned in an earlier interview in Hong Kong, Qianhai could be a risky state spatial strategy to enhance the functions of state-owned banks based offshore:

Actually this new development is very interesting, several banks in Hong Kong with large deposits are in fact subsidiaries of mainland Chinese banks, under the current regulations these subsidiaries cannot direct these funds into private equity in China. Something must be done to allow them to use these deposits, and Qianhai is the first step. But how would Qianhai stand out compared to other parts of China? If it’s only the possibility for some offshore RMB to come back legally into China, then its advantage is temporary. Offshore RMB can go anywhere and everywhere so long as the state permits it. Or if the RMB becomes fully convertible. In terms of investments, right now it seems to be centered on real estate, I’m not sure if Qianhai will end up like another ‘hollowed out’ real estate project in China. (Interview, venture capitalist, Hong Kong, January 2013)

This observation corresponds to the earlier comment of the limits to cross-border lending by the unnamed Hong Kong-based banker: if no new avenues for capital flows are created, predetermined ‘spatial fixes’ like Qianhai would be quickly saturated by fixed capital investments. At the local level, this saturation could easily be offset by the identification of new ‘spatial fixes’ – RMB backflow channels could indeed be scaled “anywhere and everywhere” across Chinese state spatiality. More importantly, these new spatial fixes would guarantee a short-term boost to GDP. At the structural-systemic level, however, if capital is not put into more ‘productive’ use in non-financial and real estate industries that could generate longer-term revenue streams, it is unclear if offshore investors would find it attractive to see their funds channeled to the already overheated housing markets and infrastructural overcapacities (e.g. underused freeways and airports).

Fundamentally, the intention to plan for rather than allow markets the freedom to determine the geographies of RMB backflow channels underscores the necessity – if not
centrality – of state involvement in the Chinese financial system. This may appear paradoxical vis-à-vis the demands for global capital integration and its supposed corollary, policy convergence, but it is arguably necessary to sustain the CPC’s commitment to Deng’s Four Cardinal Principles (ref. Chapter 2). Ji Zhihong, Director of the Research Bureau of the People’s Bank of China, puts this necessity in historical perspective:

Historically there was a tradition of privately-operated banks, for instance prior to liberation [i.e. 1949] there were large numbers of money and credit houses. But under the implementation of a highly-centralized planned economic system prior to reforms in 1978, banks were just like fiscal monetary pockets. Naturally, under such a system without a privately-operated economy, there was no need for privately-operated banks. Even though the [post-1978] reforms have gone on for so many years and the privately-operated economy has developed and strengthened, at a certain level, banks are still viewed as necessary tools to determine the economic pulse and facilitate macroeconomic adjustments...In reality, to look at it from many years of social debates, the issue regarding privately-operated banks is at a certain level a problem with the state’s attitude towards fair competition. (Personal essay published in Caijing, 16 June 2013)

It is in relation to the central government’s persistent desire for control over the Chinese economy and yet enjoy the privilege of a global currency that the national designation of Qianhai is conceptualized. For the RMB to be truly ‘internationalized’, it must have the ability to circulate strongly outside of the borders of its ‘home economy’. According to received textbook economic theory, the precondition of currency internationalization is the freedom of the international currency (e.g. the US dollar, the Japanese yen and the euro) to come and go freely from its respective ‘home economy’. The introduction of experimental policies for cross-border loans in Qianhai at once reinforces and revises this theory: it is reinforced by the CPC’s acceptance of the requirement for the RMB to move freely across geopolitical borders, but revised by the restriction of this freedom to spaces outside of mainland China. Through instituting offshore RMB centers in Hong Kong and London, RMB can flow freely in and out of these centers unencumbered at a quota set by the CPC. Unlike other internationalized currencies, however, these RMB flows would not be able to flow freely into China, its ‘home economy’. The central reason is because the CPC wants to retain the power to shape the geographies of these backflows, and Qianhai New Area is the economic-geographical expression of this power.
7.5 Conclusion: Change as the precondition of continuity?

The designation of Hengqin and Qianhai as “nationally strategic new areas” is at once a local initiative and a national project that is simultaneously related to the function of other analogous projects in which the central government holds significant leverage. It is an expression of what Peck (1998) terms “central localism”, a mode of governance in which the central government of a nation-state identifies and capitalizes on local socioeconomic characteristics to attain its goals. However, as Chapter 6 and section 7.2 illustrate, the these new areas did not emerge from a geographical-historical vacuum: it was triggered in part by the Guangdong government’s risk-laden attempt to effect the ‘double relocation’ restructuring policy following the global financial crisis, and in part by the Chinese central government’s concomitant desire to reduce its use of the US dollar after the crisis exposed the instability of the US financial system. In one sense, then, in as much as the rescaling process and the policy innovations represent unprecedented changes, they are nonetheless *still* embedded within a broader system that has deeper historical roots. This reinforces Tsou’s (2000: 211-212) observation that

> Unlike technological invention, innovations in human affairs and history need not be something entirely new, something that did not exist before. Frequently, they are not. They may have historical precedents, antecedents, precursors, parallels, and analogues. They are innovations only in the context of an existing situation. They are the ideas, practices, policies, and programs that people at a particular time and place did not previously possess or were previously thought unfeasible. To paraphrase Elster (1983: 102), innovation is an act “expanding the feasible set” of alternatives. (2000: 211-212)

There is indeed a “historical precedent” to this latest attempt at “expanding the feasible set of alternatives”. As Yang (2005: 2147) has observed, “Decision-making competencies in the HK–PRD cross-boundary region have tended to disperse across multiple levels of governments…In response to the lack of an effective regional authority and the unique political framework of ‘one country, two systems’, [the] central government has played a somewhat backstage coordinator role in the transition of the integration mechanism and cross-boundary governance.” A former participant in discussions on the planning of Hengqin, Wang Xianqing, made a similar observation of the history of inter-governmental collaboration in the Pearl River Delta (PRD): “It can be said that, all over the country, there is no region like the PRD when it
comes to lack of collaboration [between local governments], unwillingness to collaborate, or being plainly difficult during collaborations. These local governments make meticulous calculations based on very short-term interests, they seek instant benefits (*jigong jinli*), they are simply unwilling to cooperate sincerely and magnanimously on the basis of a broader strategy.” (Wang, 2010: n.p.).

In view of this “lack of an effective regional authority” and the local governmental culture of being “plainly difficult” when it comes to collaborative strategizing, Wang Yang arguably found it both necessary and advantageous to involve governments positioned at other scales – namely the Chinese central government and the Hong Kong and Macau SAR governments – in the spatial repositioning of Guangdong. Embedded within this broader spatial repositioning strategy was the attempt to ‘scale down’ three intra-urban territories – Hengqin, Qianhai and Nansha – in order to ‘scale up’ the importance of Guangdong province (ref. Chapter 6, section 6.1). The underlying logic was to facilitate new capital inflows into Guangdong just as industries deemed redundant were either relocated to the outlying parts of the province or were allowed to expire automatically without further state support.

With this two-pronged spatial strategy, the Wang administration simultaneously set in motion and responded to the re-layering of the provincial economic-geographical structure. This proactive role of the Guangdong government in driving the rescaling process corresponds to Brenner’s (2004: 93) observation that “State institutions do not contain a pre-given structural orientation towards any specific scale, place or location; however, determinate forms of state spatial and scalar selectivity emerge insofar as social forces successfully mobilize state spatial strategies that privilege particular spaces over others.” By extension, it further supports the argument raised in Chapters 1 and 2 that experimental reforms in post-Mao China do not correspond to absolute regulatory devolution to local governments. Rather, the reforms exemplify a regulatory process termed ‘decentralization as centralization’, or the enhancement of central state power through the reconfiguration of regulatory capacities in targeted local geographies, with centrally-owned SOEs playing active roles within these rescaled spaces.
As Chapter 6 shows, however, it is still early to know if the production of these experimental economic spaces will lead to the long-term stability of the national economy. Indeed, it is a tentative, risk-laden process generated by the CPC. As one Macau-based interviewee puts it, “it appears that they [CPC-linked actors] are just playing amongst themselves” (January, 2013). Even before offshore funds enter Qianhai and Hengqin, the colossal capital inflows into these areas were supplied primarily by debt-financing from the central to the provincial levels. While the inflows had the practical effect of easing the political opposition to and the economic effects of the ‘double relocation’ program, it arguably worsened the national debt-to-GDP ratio and raises question on whether the invested funds could be recouped. Already a problem nationwide, the rescaling process further revealed the heavy reliance on debt-financing and investment-driven growth in the Chinese macro-economy. It also remains to be seen if these offshore funds could penetrate the ‘concrete economy’ (shiti jingji), namely sectors that contain opportunities for expanded capital accumulation beyond the financial and real estate sectors.

To examine how the rescaling process contributes at once to regional economic integration and national-level economic restructuring, this chapter documented the rationale of the experimental financial reforms in Hengqin and Qianhai. It can be argued that these ‘new areas’ are functional extensions of new policies introduced in Hong Kong and Macau. Undergirding this functional extension is territorial re-bordering, institutionalized as ‘one- and two-line borders’ in Hengqin and through the regulation of cross-border credit flows to and from Qianhai. Both rescaled territories have added new dimensions to the economies of Hong Kong and Macau, and in turn illustrated specific issues confronting the central government as it works to reconfigure the national financial structure. Through this analysis, new questions are asked of the national-level institutional reforms (cf. sections 7.3 and 7.4): are the policy experiments to facilitate more market-like governance and a concomitant ‘retreat’ of the state, or, perhaps counter-intuitively, could they be intended be reinforce the CPC’s involvement in
the economy and in turn enable it to remain the primary driver of capital accumulation across Chinese state space?

Empirical evidence suggests this round of state spatial rescaling allows the CPC to enhance its control of the Chinese financial system. That this repositioning process involved a series of policies aimed at deepening cross-border economic integration with Hong Kong and Macau accentuates the importance of economic liberalization in the Chinese central government’s calculations. The importance of producing experimental space for economic integration supports Brenner’s (2004: 111) contention that “state institutions must be conceived as multi-scalar socio-spatial configurations that evolve historically, often in ways that have significant ramifications for the geographical configuration of capitalism as a whole.” At the same time, however, the ‘new areas’ simultaneously represent the politico-geographic limitations of economic liberalization – just like it was in 1978, the Chinese central government remains cautious in its engagement with the global system of capitalism. Rather than signal an inevitable movement toward capital account convertibility and interest rate liberalization, the reforms are in fact beginning to show how the Chinese government wants to have its cake (reduce its exposure to the risks of using the US dollar) and eat it (enable free flow of the RMB through an ‘internationalization’ drive). Perhaps the most important finding is that in the process of state rescaling, the CPC retains the power to direct offshore capital investments to onshore locations (Qianhai in this regard, although Hengqin could play the role if the ‘second line’ border begins to institute currency controls; ref. Figure 7.5).

The continued importance of central government power illustrated in this two-chapter segment in turn provides anchors to examine the historical connection between national-scale economic regulation and Chinese state power. As illustrated in sections 7.3 and 7.4, the Chinese state continues to view strong regulation of capital as the sine qua non of its quest for a “socialist market economy”. It could indeed be argued that, despite rising debt-to-GDP ratios and constant threats of massive local governmental defaults on loans, the Chinese financial system had remained stable because foreign capital had been unable to generate systemic
damage last seen during the 1997 Asian financial crisis. If the economic-geographical reconfiguration and policy experimentation in the GPRD represent a novel way to enhance Chinese state regulation of the financial system in the contemporary context of global economic integration, they only underscore the argument, as laid out in the preceding chapters, that the policy experimentation integral to state rescaling in China has taken on qualitatively distinct characteristics. Whether this will maintain CPC dominance of the national economy remains an open question.
Chapter 8
State rescaling in and through Chongqing I: the state as economic driver

8.1 Introduction

Beginning from 2007, the CPC implemented a series of experimental socioeconomic reforms in Chongqing, a city-region\(^1\) in southwestern China. While reforms have been commonplace in the post-Mao era, the new policies in Chongqing earned a reputation as the ‘Chongqing model’ or ‘Chongqing experience’ of development because it 1) integrated strong state involvement in economic development; 2) expanded access to social welfare for rural migrants in the city; and 3) mobilized the masses through a series of propagandistic campaigns. The latter process, driven by Chongqing Party Secretary Bo Xilai between 2007 and 2012, was symbolized through a recurring series of ‘red song’ singing campaigns (*changhong*) reminiscent of the Mao-era. And just as the Mao government instituted campaigns to publicly humiliate ‘class enemies’ and ‘counter-revolutionaries’, Bo gave massive publicity to his programs to eradicate organized crime (*dahei*). Newspapers regularly reported the arrests and swift prosecution of triad members, and a museum was established at the most iconic location of the municipality – Chaotianmen – showcasing the faces of key arrested members.

It was arguably for this reason that the reforms in Chongqing were construed as a concoction of terror-like campaigns and a cult of personality characteristic of the Cultural Revolution (1966-1968). In March 2012, just over a month after Bo was implicated in a corruption-cum-political scandal, then Chinese Premier Wen Jiabao made a veiled critique – broadcasted live on national TV – of reforms in Chongqing:

> Without successful political structural reform, it is impossible for us to fully institute economic structural reform and the gains we have made in this area may be lost... New problems that have cropped up in Chinese society will not be fundamentally resolved and such a historical tragedy as the Cultural Revolution may happen again. The mistake of the Cultural Revolution and impact of feudalism are yet to be fully eliminated. (CCTV, 14 March 2012; author’s transcription)

Shortly thereafter, influential actors began to make concrete associations between the Chongqing reforms and the Cultural Revolution. Hu Deping, vice minister of the Propaganda Department of the CPC, argued that both during the Cultural Revolution and in Chongqing
under Bo, “countless wronged cases occurred in both instances under the prettiest discourses, with people subjected to disaster” (China Reform, 4 December 2012). Similarly, a prominent Chinese academic Xu Youyu, argues that, even though the Chongqing reforms were taking place in a globalizing context, three factors made the Chongqing reforms highly similar to the Cultural Revolution: 1) The reforms suppressed the rule of law; 2) they were ideologically motivated; and 3) they received significant support from one segment of the population (Part of academic discussion at the Unirule Institute of Economics, Beijing, 6 December 2012; transcript published in China Review, 14 January 2013: n.p.; author’s translation).

In the face of these strong critiques, the socio-ideological mobilization programs in Chongqing stopped after Bo was removed from power in March 2012. There were no further indications whether the broader set of experimental socioeconomic reforms in Chongqing would be extended nationwide. While it is plausible that the Chongqing government’s strategy to stimulate ideological passion and its hard-handed approach to purge organized crime may have caused significant discomfiture for senior echelons of the Chinese government, a multi-scalar and historically-situated analysis will show that the roots of the experimental reforms in Chongqing preceded Bo Xilai’s tenure as Chongqing Party Secretary. Indeed, the parameters of the reforms were instituted in 2007 by Bo’s predecessor, Wang Yang, who went on to launch the “double relocation” economic-geographical restructuring in Guangdong (see Chapters 6 and 7). What the Bo government did in reality, then, was to build on the path established by Wang, not Mao.

This was done in two ways. First, Wang’s agenda was embellished with a program of export-oriented industrialization that, ironically, was endorsed by market-minded reformers like Deng Xiaoping and Zhao Ziyang (see Chapter 5). Second, the reforms were justified discursively as an exemplar of socialist development (which led to the associations with Maoist development mentioned earlier). This two-chapter segment conceptualizes these phenomena as a process and an outcome of the tensions between state rescaling, policy experimentation and path-dependency (ref. Chapters 1 and 2). Chapter 8 is a history of the emergence of
strong state intervention in Chongqing, and explains how this state influence undergirded the designation of Liangjiang New Area. Chapter 9 will document and evaluate the tensions associated with socioeconomic reforms in the municipality. Following Zhang and Peck (2014), the chapters point out that the ‘Chongqing model’ cannot be reduced to the changhong and dahei programs; in addition, they do not represent the work of a single political actor. Indeed, the development of Chongqing has its own history, which means it is never just a microcosm of what is occurring at the national scale. Specifically the two chapters will explain 1) how local and extra-local actors interact to produce the economic-geographical conditions that made possible the national designation of Liangjiang New Area’ and 2) how this designation does not occur in a geographical-historical vacuum, but is layered on an earlier agenda to reform the ‘urban-rural dual structure’. Taken together, these chapters argue that the reforms in Chongqing appear to exemplify (Maoist) path dependency because of the rolling effects of policy experimentation in the post-Mao period.

This chapter is arranged in three parts. The next section will examine the relationship between proactive state intervention in Chongqing (a primary target of contemporary critiques) and changes in its regulatory relations with the central government. It argues that the strong governmental involvement reflected variegated developmental paths generated by spatially-selective policy experimentation in post-Mao China. Section 8.3 will then demonstrate why the introduction of experimental regulatory capacities to Liangjiang New Area was the outcome of active political lobbying in the post-crisis period amidst strong competition from other cities. This section further reinforces the primary argument presented in the earlier chapters: state rescaling is at once an expression of locally-driven policy experimentation in the name of the ‘national interest’ and an effect of developmental pathways instituted by previous regulatory regimes. The concluding section discusses the conceptual implications of the empirical findings, giving particular emphasis on the importance of evaluating the ‘Chongqing experience’ across a longer chain of events occurring in different locations.
8.2 The evolving positionality of Chongqing: a geographical-historical overview

Chongqing is one of the four province-level cities (zhixiashi) under the direct control of the Chinese central government. It assumed an important economic-geographical position within China since modern industrialization began towards the end of the 19th century. Developed into imperial China’s first inland open port in 1891, connections with Britain, France, Germany, and Japan were established by the turn of the 20th century. Chongqing went on to become the primary trading center along the upper Yangtze River. This preexisting economic position, coupled with its strategic location behind several mountain chains far from potential naval landings by foreign armed forces, were arguably the reasons why the KMT selected the city region as the temporary capital of the Republic of China during World War II (1937-1945) and the Chinese civil war (1945-1949). The geographic position of Chongqing within contemporary China is expressed in Figure 8.1.

During that period, the KMT transferred a colossal amount of capital goods and labor power from other parts of China to Chongqing. This produced a vast military-industrial complex in the municipality, and further enhanced its position as a major economic center. While the CPC removed Chongqing’s province-level status and merged the city with Sichuan province after it became the official government of China in 1949, Mao would, interestingly, repeat what the KMT did in Chongqing. In 1964, Mao declared China was facing massive geopolitical threats and decided to launch what is known as the “Third Front Construction” (sanxian jianshe; ref. Box 4.3 in Chapter 4 for the politico-economic implications of this program). Under this program, China’s coastal belt was designated a ‘first front’ of defense, and the southwestern interior as the ‘third front’. All areas in between are categorized as the ‘second front’. Many industrial and military complexes were consequently relocated to or constructed in the city-region, adding a new layer of industries and labor power to an industrial structure well-established by the KMT.

What is interesting is the Third Front construction was not the first instance in which Mao-era regulatory logics re-expressed regulatory logics of the KMT era. As discussed in
Chapter 4, the CPC used ‘scalar connectors’ to govern the People’s Communes, in turn reproducing state involution. This development is of theoretical significance for conceptualizing path-dependency in post-1949 China: logics inherited from earlier regimes were not totally jettisoned but repurposed to suit new regulatory contexts. The Mao administration combined selected techniques used by the KMT with new policies, in turn generating new developmental pathways (e.g. collectivized production, rural industrialization, the re-concentration of heavy industries in inland provinces, etc.). This approach would similarly characterize post-Mao development, where Deng and his successors repurposed selected Mao-era regulatory logics (e.g. land nationalization and the hukou system of demographic control) and combined them with new experimental policies in targeted geographies. It is this dynamic interaction between the past and the present that defined Chongqing’s emergence into a major frontier of reforms in contemporary China.

Before its emergence, however, Chongqing’s economic-geographical significance faded in the initial post-Mao era (i.e. between the 1980s and the late 1990s). As Chapter 5 has explained, the CPC tried to retain the structured coherence of the national economy through the ‘ladder-step’ logic. This logic was first expressed in 1980 through the formation of four Special Economic Zones (SEZs) in China’s southeastern region, before expanding into a full-fledged coastal-oriented 'industrialization with urbanization' phenomenon in the early 1990s. For more than two decades, then, Chongqing’s economic growth – like many cities and provinces in China’s western interior – lagged behind provinces along the coast. National income inequality worsened correspondingly (ref. Chapters 2 and 5).

It was only in the mid-1990s, after the Three Gorges Dam national energy project was launched, that Chongqing re-appeared on the map as a strategically significant city. Because of the sheer size and scale of the dam construction, many settlements in the upstream valleys of the Yangtze River had to be flooded. An estimated two-thirds of the 8 million affected residents were originally located in Sichuan province, the majority of them living in poverty. This engendered a colossal logistical and governance issue: the Sichuan provincial government,
which already had a huge and relatively poor population under its charge, was confronted with the challenge of resettling and then re-employing the affected residents without further straining its administrative and fiscal resources.

At that juncture, there were proposals to create a new province in the Three Gorges region\(^5\). It soon became apparent, however, that the central government was keen to avoid the costly administrative duplication and politics associated with establishing a new province. The primary policy concern, as the former Premier Li Peng put it in a 1986 diary account, was to prioritize the dam-building project over the redrawing of provincial boundaries (Li 2003). Since Chengdu, the provincial capital of Sichuan, was too far away from the flooded areas, Chongqing was identified as a more feasible location for the population resettlement issue. To ease the financial impact on the Sichuan government, the central government agreed to administer the districts of Fuling, Wanxian and Qianjiang, then amongst the poorest areas in Sichuan, as resettlement areas. These districts were then merged with Chongqing’s core urban zone to form the sprawling Chongqing Municipality. It is intriguing to see in the Chongqing experience history coming full circle: in an almost identical repetition of what the KMT regime did in 1937, the CPC “promoted” the city-region into a centrally-governed municipality for the second time in 1997 (ref. timeline in Table 8.1).

Arguably because of its relative (in)significance to the initial market-oriented reforms, Chongqing policymakers were impelled to enhance the capacities of its SOEs to drive economic growth. As one Chongqing-based academic from Sichuan explains, this phenomenon expresses a two-way connection between economic-geographical inequality and SOE reforms:

The reforms of SOEs not only affected regional inequality, you can say it was forced by this inequality. The rich coastal regions had clear advantages over the poor inland regions during the reforms of SOEs. Because the private sector was growing in the coast, it was relatively easier to reemploy laid-off workers from SOEs. This is a major political problem for all municipal governments, these workers won’t accept going to the countryside! Privatization or restructuring SOEs was also easier along the coast because capital and labor markets were more developed. The biggest problem, for me, is the concentration of many large SOEs in the inland regions. Employing so many people and yet lagging behind the coast economically, it was hard to restructure or remove these SOEs directly. (Interview, March 2012; author’s translation)
It was arguably for this reason that the state-driven industrialization approach was not fully dismantled in the post-Mao era. Since the late 1980s, some SOEs involved in weaponry manufacturing were relocated; some fully abandoned; while others like Ansteel, the Jialing Group and the Changan were restructured and are now dominant SOEs based in the municipality. In addition, the Chongqing government actively encouraged SOEs to list in foreign capital markets. Building on the SOE restructuring is the “Eight Major Investments” (badatou) program in infrastructural construction by the Chongqing government (see Box. 8.1). This program involves the establishment of eight state-financed corporations, each investing in what is considered a strategic sector.

<table>
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<tr>
<th>Box 8.1 Eight major state-owned enterprises driving infrastructural development in Chongqing</th>
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<tr>
<td><strong>Chongqing Expressway Development Company (CEDC):</strong> constructs, operates, and manages expressways.</td>
</tr>
<tr>
<td><strong>Chongqing Transportation and Tour Investment Company (CTTIC):</strong> constructs, operates, and manages highways; develops and manages tourism attractions.</td>
</tr>
<tr>
<td><strong>Chongqing Urban Construction Investment Corporation (CUCIC):</strong> develops urban infrastructure such as bridges, tunnels, and roads in the main urbanized districts.</td>
</tr>
<tr>
<td><strong>Chongqing Energy (Construction) Investment Corporation (CEIC):</strong> invests, operates, and manages energy-related (i.e., electricity, gas, &amp; coal) power projects.</td>
</tr>
<tr>
<td><strong>Chongqing Real Estate Group (CREG):</strong> restores, rehabilitates, and develops lands.</td>
</tr>
<tr>
<td><strong>Chongqing Development Investment Corporation (CDIC):</strong> builds and operates rail transportation and other infrastructure projects.</td>
</tr>
<tr>
<td><strong>Chongqing Water Works Controlling Group (CWWCG):</strong> provides water supply &amp; drainage integrated service to the main urban area.</td>
</tr>
<tr>
<td><strong>Chongqing Water Resources Investment Company (CWRIC):</strong> invests in and constructs water conservancy projects, small hydropower plants, &amp; water supply &amp; drainage projects.</td>
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*Source:* Author’s compilation.

Because of the proactive restructuring of state involvement in the economy, the Chongqing government increased the value of state-owned assets (excluding those of central government-controlled SOEs) from 150 billion yuan in 2000 to 1.8 trillion yuan in 2013, a twelve-fold increase (Huang, 2006: 20; *Caijing*, 20 January 2014). In an intriguing twist of fate, what were originally geographical-historical liabilities in the post-Mao era intriguingly transposed into economic assets. As the next section and Chapter 9 will demonstrate, it was
this strong state capacity, duly repurposed, that jumpstarted what is now known as the 'Chongqing model' of reforms.

8.3 Chongqing as a new platform for policy experimentations

8.3.1 The path of state rescaling in and through Chongqing

State rescaling, as Chapter 2 has argued, occurs dynamically in relation to national developmental goals. In Chongqing, a new round of spatially-targeted policy experimentations was set in motion after the global financial crisis struck in 2008 offered an excellent context to justify new policy experimentations. This point needs elaboration: the crisis may appear to be an external shock, but the conditions and intentions for experimental reforms were established prior to the crisis. Interestingly, as intimated in Chapter 6, this corresponded with the Guangdong government’s efforts to cope with the financial crisis. In turn, it lends further support to the conceptual argument that state rescaling is not a singular expression of decentralized governance or recentralized state power (section 2.3.2, Chapter 2) – it reflects the interactions of policies and actors across different scales.

While the Chongqing government was confronting the challenge of restructuring SOEs through the 1990s, it was becoming apparent that the enlargement of Chongqing municipality had exacerbated urban-rural income disparities. While Chongqing is nominally a municipality, more than two-thirds of its population held rural hukous after the municipality merged with the Three Gorges regions. Shen Xiaozhong, the Director of Chongqing’s Municipal Development and Reform Commission, puts the situation in perspective:

In 2006 the urban-rural income ratio in Chongqing was 4:1, it was larger than the diaparities at the national and western regional level; the GDP ratio between in core city area, western Chongqing and the Three Gorges watershed area was 3: 1.6: 1, it was greater than the ratio between the eastern central and western parts of the country; the difference between the per capita GDP was 10.5 times, it was larger than the difference between Shanghai and Guizhou. In addition, the resettlement of millions of people in the Three Gorges area was a world-level challenge, be it in human resources or tasks it was more complicated than any other construction project nationwide. (Interview with 21st Century Herald, 6 April 2007; author’s translation)

As Shen adds, this disparity illustrates the contradictions of the Mao-era “dual structure”, and was thus the target of reforms:
The holistic reforms on urban-rural integration and the consequent experience have a demonstration effect at the national level. The pronounced urban-rural dual structure is a microcosm of a basic national condition. As a special intersection of a big city, a big countryside and a big watershed, in addition to its location in the interior, the exploration of institutional reforms in Chongqing serves as a model for provinces in the Chinese interior. (Ibid.)

Yet there had to be more specific reasons why Chongqing was suitable as a site of reforms vis-à-vis other locations that were similarly subject to the constraining effects of the “dual structure” (cf. comment by Qiu Feng in section 8.1). The interview with the Chongqing-based planner indicates the intra-municipal disparity was ironically exacerbated by the Three Gorges resettlement program (cf. discussion of how this structure was undergirded by the *hukou* institution in Chapters 4 and 5):

As a heavily industrialized city, a significant portion of people in Chongqing enjoyed employment stability and good social benefits, so when a large number of poor rural residents were categorized as Chongqing residents, the urban-rural income disparities in Chongqing naturally became larger. And the government suddenly had a new responsibility to reduce this disparity. So while the city struggled to catch up with the coast, it also had to overcome this disparity. (Interview, Chongqing, March 2012).

Viewed in relation to Shen’s comment, this insight indicates the legacy of the “dual structure” was not simply a “microcosm” of “a basic national condition”: it was “pronounced” in Chongqing because of the interaction between the 1958 *hukou* institution, the “Third Front” industrialization drive and the Three Gorges Dam construction project. The region-specific interaction of these inherited policies was arguably the primary reason why the Chinese central government, then led by Hu Jintao, selected Chongqing as the site to experiment with removing this “dual structure”.

Facilitating the “demonstration effect”, in Shen’s parlance, was the ‘314’ integrated developmental strategy. ‘3’ in ‘314’ refers to 3 major positions, namely i) to accelerate Chongqing’s position as a ‘growth pole’ (*zengzhangji*) in western China; ii) to be the economic hub of the Yangtze upstream; and iii) to develop through urban-rural integration (*chengxiangtongchou*). ‘1’ in ‘314’ refers to the broad overall objective of attaining the first ‘affluent society’ in western China, while ‘4’ in ‘314’ refers to ‘4 major tasks’ (*sidarenwu*), namely to i) expand ‘industrialization to stimulate agrarian development (*yigongcunong*)’, ‘lead the countryside through the city’ (*yichengdaixiang*) and develop a new ‘socialist countryside’; ii)
realistically transform the means of economic growth and accelerate the reformation of old industries; iii) address the livelihood problems of the people so as to develop a Harmonious Society; and iv) holistically enhance city-building and raise the standards of urban management.

Launched in March 2007 by Wang Yang (who went on to drive the rescaling of Hengqin, Qianhai and Nansha) and then Chinese President Hu Jintao, this strategy was the first instance Chongqing was identified as a “growth pole” of the western interior (see detailed description in Table 8.1). It was also the first instance the Chinese government explicitly sought to tackle the problem of treating rural migrants in the cities as citizens with equal social rights as those holding urban hukous. After Bo Xilai was appointed the CPC Party Secretary of Chongqing in late 2007, as one Chongqing legal consultant and planner noted in an interview, Chongqing officials were received phonecalls from senior bureaucrats in January 2008 that there were plans to develop a new economic zone (Interview, Chongqing, March 2012). This strongly suggests that Bo had in mind the idea of producing Liangjiang New Area even prior to his appointment (more on this shortly). Soon thereafter, the municipal government invited a research team from the central government to explore how to advance ‘314’ agenda.

A visiting team of 219 centrally-approved experts arrived in June 2008. Following the visit, the Chongqing government proposed 12 new policy suggestions to the Chinese State Council, the primary objective of which was arguably to secure central government financial support to develop Liangjiang New Area as part of a broader ‘national strategy’ (guojia zhanlüe). 7 additional suggestions to the State Council were added by the visiting research team, forming a ‘12+7’ policy framework. These proposals were subsequently approved in an elaborate, 38-item work plan known as “No. 3 document”. Pledging to enhance Chongqing’s ‘strategic position’ (zhanlüe diwei) and calling for Chongqing policymakers to plan in relation to the national “whole situation” (quanjü), the document established the parameters for the redesignating of 1,200km² of land north of the core urban area into a territory of national priority. This territory is Liangjiang New Area (see Figure 8.1 below).
Figure 8.1 Location of Liangjiang New Area (red zone) within Chongqing, viewed in relation to ‘one focal zone, two regional flanks’ spatial project and the locations of Binhai New & Pudong New Area (inset, top left)

Source: Author’s textual illustration.
Table 8.1 The changing positionality of Chongqing since its repositioning in 1997

<table>
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<tr>
<th>Year</th>
<th>Development</th>
<th>Characteristics</th>
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| 1997 | Granted province-level city (zhixiashi) status | • First (and at the time of writing, still the only) city in China’s interior to be granted this status  
- Discursively identified as the ‘window’ to and ‘dragon head’ of the west  
- Entrusted by the central government to fulfill ‘4 big things’ (sijiandashi), namely 1) the resettlement of migrants affected by the Three Gorges Dam construction; 2) the reformation of old industrial bases; 3) the ‘lifting’ of the poor in rural villages; and 4) the protection of the biophysical environment. |
| 2000 | Official implementation of the ‘Great Western Opening Up’ (xibudakaifa) cross-provincial program | • Chongqing aligned to the experimentation of ‘big city lead big village’ (dachengshi dai danongcun) developmental approach  
- Identified as a geographic hub that connects the central and western parts of China |
| 2007 | ‘314’ Overall Strategy identified (zongtibushu) | • Launched by China President Hu Jintao during the national ‘Two Meetings’ in March, in tandem with Chongqing Party Secretary Wang Yang  
- The strategy would form the guiding framework for subsequent socioeconomic reforms in the municipality |
| 2009 | ‘No 3’ document (guofa sanhao wenjian) issued on Chongqing’s socioeconomic reforms | • Issued January; termed ‘A number of opinions regarding the enhancement of Chongqing city’s urban-rural integration reforms and development'; marked the implementation of the ‘314’ integrated developmental strategy  
- Also reflected the beginning of attempts by the Chongqing government to ‘scale up’ economic development |
| 2010 | Designated a ‘national central city’ in ‘National Urban System Plan’ (guangquochengzhentixiguihua) | • Plan devised by Ministry of Housing and Urban-Rural Development; announced in February.  
- Only city amongst the five designated cities – Beijing, Tianjin, Shanghai and Guangzhou – not located along the coast |
| 2010 | Liangjiang New Area officially opened for development | • Unveiled on 18 June, the same date when Chongqing became a province-level city  
- An economic development zone spanning 1200km², within which experimental policies are devised and implemented  
- Positioned as ‘one door, two centres and three bases’ (yimenhu, liangzhongxin, sanjidi), namely 1) the main entry point to western China; 2) both an import-export trading centre and a financial centre in the Yangtze upstream region; and 3) the bases for modern manufacturing, export-processing and the commercialization of R&D outcomes |
| 2010 | Two major socio-spatial policies launched | • Public rental housing construction begins in February  
- Hukou conversion program officially implemented in (after a series of pilot experimentations) |
| 2013 | Administrative autonomy mooted for Liangjiang New Area | • On 30 November 2013, the Chongqing announced a series of decisions to detailing how administrative autonomy is to be granted to Liangjiang New Area; allows the New Area greater flexibility to respond to national and global economic opportunities  
- Indicates a continuity of the spatial project launched by the Bo Xilai-Huang Qifan administration; whether social reforms will be expanded remains unclear |

*Source: Chongqing Ribao (8 October 2007; 14 January 2012); People’s Daily Online (10 February 2010). Data compiled and translated by author.*
As Table 8.1 indicates, this most recent round of spatial reconfiguration within the municipal scale occurred in tandem with the ‘314’ integrated developmental strategy (in March 2007) and the decision to confer ‘national central city’ status on Chongqing (in February 2010). It was a multi-scalar process to enhance Chongqing’s competitiveness in relation to other places. Working on the basis of ‘move first, experiment first’ (xianxing xianshi quan) in a gamut of policy portfolios, Bo Xilai and mayor Huang Qifan proposed to the central government a list of policy advances, one of which was to produce the country’s third ‘nationally strategic’ economic development zone (the other two then were Pudong in Shanghai and Binhai in Tianjin; more on this in section 8.3).

The ‘promotion’ of Liangjiang New Area to “nationally strategic” status was made possible by an integrated strategy to effect localized supply-chain integration; to attract targeted transnational corporations (TNCs) to relocate their offshore operations to Chongqing; and to connect Chongqing to major logistical hubs in the European Union (EU) through a borderless rail link, an unprecedented move that effectively cuts transcontinental transport time to under two weeks. In this regard, Liangjiang New Area symbolized the Bo government’s ambition to transcend the limitations commonly associated with interior regions – poor access to transport routes. As Chongqing mayor Huang Qifan has remarked, reducing transaction costs associated with transport was a major goal in the spatial reconfiguration process:

The largest constituent of foreign capital investments in China involves export processing, this comprises 50% of China’s annual US$2500 billion worth of exports. This export-processing model has been active along the coast for 20 years, employing almost 200 million workers. The special feature of this model is “two heads beyond”, i.e. the original spare parts come from beyond, and the retail markets are located beyond, while only the processing base and assembly plants are located along China’s coasts. If export-processing in Chongqing is done the same way, the spare parts would be shipped from overseas to China’s coasts, then transported 2000km to Chongqing, the transport costs and flow time would mean this model is unworkable. There has not been export-processing in inland China because goods transport has been an issue. (Interview with Chongqing Ribao, 20 May 2011; author’s translation)

Ironically, Chongqing’s emergent “pivotal position” in contemporary China could be attributed to its prior lack of integration within the national and global economy. This in itself was an outcome generated by earlier state spatial strategies. As mentioned earlier, the entire western interior was not prioritized for development during the Deng era. The ‘ladder step’ spatial
strategy set in motion the reproduction of economic heterogeneity across Chinese territory, and this heterogeneity in turn meant some places (e.g. the coastal seaboard) became more connected to the global economy than others. This highlights how the ‘ladder step’ strategy – which was experimental in orientation when it was launched in the early 1980s – generated variegated developmental pathways. While it deepened uneven development across the country (cf. Chapter 5), this unevenness simultaneously contained the seeds for fresh development in China’s western interior. In a bid to ‘catch up’ with the industrializing coastal city-regions, the Chongqing government actively sought to develop the infrastructural foundations by undertaking the financial risks. In other words, the inequality generated by the ‘ladder step’ approach generated the conditions of possibility for the Chongqing government to spearhead China’s economic restructuring after the global financial crisis struck in late 2008 (more on the constitutive effects of the crisis shortly). It is in this sense that the emerging phenomena in Chongqing are not expressions of Maoist path-dependency – they appear to take on Maoist logics of socioeconomic regulation because of policies launched in the post-Mao era.

One defining characteristic of the apparent path-dependency was the retention of public ownership – in particular land, but now including other means of production like public utilities, finance and info-communications – in the Chongqing economy. This was (and remains) a characteristic inherited from the Mao-era and which was not as well-reformed relative to those in the coastal city-regions. In an intriguing twist, this inherited characteristic undergirded the massive investments in infrastructural and social projects that subsequently enabled the Bo Xilai government to launch the Liangjiang New Area project. Rather than negate public ownership, the Chongqing government began to actively restructure the SOEs under its charge after Huang Qifan took over as mayor in 2002. The initial goal, known locally as badatou, was to enable the state to drive investments in eight major infrastructure-related sectors. To the Chongqing government, state involvement in China’s relatively under-developed regions was an economic necessity at the time. In an interview with ENN Weekly (21 January 2014), Huang
explains the logic of the badatou project:

I have never had the intention to help SOEs monopolize, if there is a task that private or foreign capital could do, I would not want state capital to enjoy sole benefits. Then why must there be the ‘eight major investments’ (badatou)? And furthermore, investments solely financed by the state? It is not a matter of perspective or ethics that determines whether an economic domain can be relaxed [by the state], more importantly it is determined by whether pricing and resource allocation have reached a level that can be taken over by the market. My perspective is that, for domains with weak market signals, the Chongqing government will use SOEs to launch and experiment with investments. It is necessary to build these eight investments, it is never about securing monopolies, never about the unwillingness to ‘share the cake’ with the non-state economy, rather it is because market signals were not in place, the non-state economy was unwilling to do the tasks that needed to be done, hence the state can only use time to change space, it moved in through establishing financing platforms and got the tasks done. (Interview with ENN Weekly, 21 January 2014)

The approach of “using time to change space” was effectively a twist of Marx’s famous observation that capitalism is subject to “the annihilation of space by time” – the Chongqing government’s decision to intervene ahead of markets constituted the production of space by time. Its ability to take the initiative in integrated infrastructural development was a crucial precondition for new layers of space-shrinking investments to be made. Put another way, the ability of the Chongqing government to invest in infrastructural construction laid the groundwork for the subsequent ‘314’ developmental program and the spatial strategy to establish Liangjiang New Area (ref. Table 8.1, Box 8.1 and section 8.3). Yet, Huang’s interpretation that “market signals were not in place” does not mean the state automatically had to intervene. As Cui Jian, the former chairman of State-owned Assets Supervision and Administration Commission in Chongqing (Chongqing SASAC), the ‘market’ was just not able to take on infrastructural development in Chongqing following its re-designation into a centrally-governed municipality because of the ‘ladder step’ approach:

In fact the ‘eight major investments’ policy was premised on conditions in which market mechanisms were weak; the government thus organized SOEs into a model to finance the expansion of economic developmental capacities. To take the formation of the first investment sector, the public water works group, as an example, a major battle took place. Around 2000, when the Three Gorges Dam needed to store water, the central government decided to establish 16 wastewater management plants along the Yangtze River. Through national bonds, each firm that was selected to build and manage the plants would receive 50% of the project fee, at the time the national bond bureau stated that this amount would go to whoever takes on the project.

As Cui’s comment shows, the CPC was originally keen to allow private firms autonomy in the construction and management of the plants, but this did not materialize because domestic
banks (the majority of which were and remains state-owned) were plainly unused to dealing with private-sector led development in the western interior:

The 16 private bosses [who bidded] agreed happily, and 50% of the project fee was thrown in. When the central government came to check in 2002, it discovered not a single of those bosses used the money, all offered the same reason: banks would not offer additional loans [to make up the other 50%], they did not believe wastewater management plants could generate the ability to repay the loans. The National Development and Reform Commission (NDRC) added another 25% of the fees, following which the plants were constructed but were not put in operation. The private bosses stated the financing costs of operating the plants were not planned holistically, even though the construction fees were paid, who would pay the maintenance fees? The management of these plants became an irresolvable conundrum. (Interview with 21st Century Business Herald, 9 March 2013)

In turn, the Chongqing government had to implore the NDRC to delegate more autonomy to run its infrastructural construction. This intervention reinforced the lack of private market strength in Chongqing and arguably re-constituted direct state involvement in the contemporary Chinese political economy:

The Chongqing municipal government submitted a report to the NDRC stating that the original model of financing only the construction of a project was incorrect. It might as well allow the Chongqing government to construct a large-scale waterworks management corporation that could undertake the national bonds, fixed assets and projects associated with the 16 wastewater plants and engage in centralized financial management. (Interview with 21st Century Business Herald, 9 March 2013)

Huang and Cui’s comments call to question Chaudhry’s (1993: 247) assertion that “it was often the institutional weakness of the state and its aborted attempts to create unified national markets that led to interventionist regimes so roundly condemned by the neoliberals”. As explained in Chapters 4 and 5, the “national market” was produced and held together by a strong state before it was ‘liberalized’ selectively in 1978. the policies introduced in the Mao-era had the effect of fortifying state control of the national socio-economy, and this control enabled Deng to experiment with the ‘ladder step’ approach. Contra Chaudhry’s (1993) view, it was inherited institutional strength, repurposed through coastal-oriented industrialization projects in the 1980s and 1990s, that entrenched and reproduced the interventionist regime in Chongqing. And, going by Huang’s words, once the state is embedded in the process of capital accumulation, there is no implicit necessity for it to “retreat” vis-à-vis private producers:

Why must there be a retreat? How would this retreat be done? It should not be done on the basis of idealism, on the feeling that the government should not control enterprises and should retreat during good times. However, in reality we are retreating on the basis of market principles.
One distinct phenomenon of this entwinement with "market principles" is the mode of "retreat" – state control of its corporations was delegated to and subjected to the functions of capital markets. Apart from offshore listings, Chongqing-based SOEs have been encouraged, as part of the national ‘Go Abroad’ developmental strategy launched after the global financial crisis, to raise capital and/or invest overseas. In turn, this cross-border market involvement by state-linked economic entities gives a new definition to state-market overlaps: the state could affect and respond strategically to the ‘rational’ calculations of nominally ‘private’ market actors in the name of social security. Huang and the former Chongqing SASAC Director Cui Jian explain the rationale behind this proactivity:

What we are pushing forth in Chongqing is an integration of ‘going out’ and ‘bringing back’, which leads to a model that ‘kills three birds with one stone’. Through overseas mergers and acquisitions or sole financing of investments, we actualize ‘going out’; through overseas mechanisms, we raise capital and re-invest in Chongqing, facilitating ‘bringing back’; through the reinvestments we enjoy the manifold effects of security and long-term economic development.

The transposition of the provincial-level state into a transnational economic actor investing in longer term “security” and “long-term economic development” complicates state-centric accounts of economic development (ref. section 2.3.2, Chapter 2). Contrary to the approach in Guangdong, which sought to enable state rescaling through bringing in investments from centrally-owned SOEs and firms based in Hong Kong and Macau, the Chongqing case saw the state directly involved as both regulator and participant. This two-pronged involvement was justified as a form of necessary paternalism. Cui Jian, the former Chongqing SASAC director, sums up this point:

I think the objective of local SOEs is to play a leading role in the local economy, unlike central-administered state-owned enterprises, which seek to become world leaders. Through its SOEs, Chongqing created the “third finance” [state-owned assets financing public projects under a cost-recovery model], which generates tax and dividends, helps the government with investment and reduces fiscal expenditures, thereby enhancing local government’s urban-rural development, and makes possible the transformation of public finance. I think this ought to be the focus of local SOEs. (Interview with The Economic Observer, 28 November 2011; author’s translation)

Wen Tiejun, a prominent China-based economist, sums up the effect of this path-dependence on post-2007 socioeconomic reforms in Chongqing:
The advantage in Chongqing is the ability to concentrate energies and launch huge projects (jizhong liliang gan dashi)...Because the developmental capital in Chongqing is too high, most ordinary private firms would be ineffective on this front; moreover, because the developmental parameters are to a large extent outcomes of the discussions between the Chongqing government and the central government, Chongqing received 12 beneficial policies. As such, the developmental capital could only be taken on by sizeable state-owned enterprises” (Wen, 2011: 65; author’s translation).

Taken together, these comments point to the need to establish how the ‘Chongqing model’ of development is at once a product of and a process to circumvent the legacies of experimental policies introduced in the first two decades of post-Mao reforms (cf. Chapter 1). Viewed in relation to these conditions that made possible socioeconomic reforms in post-2007 Chongqing, the equation of socioeconomic reforms in the municipality with Maoist resurgence appears problematic. Specifically, it would not suffice to explain change as unique to a particular conjuncture (i.e. after Bo Xilai took over as Party Secretary of Chongqing): inherited institutions at once enabled and encumbered Bo’s ability to drive change. As this section has demonstrated, the roots of the post-2007 change extend at least to the ‘Third Front’ construction drive in 1964. In turn, it raises further questions on how Chinese state power was reproduced through its adoption of market-based governance. It is thus imperative, as mentioned earlier in Chapters 1 and 2, to make clear the connections between the latest series of socioeconomic reforms and the constitutive conditions that made these reforms possible.

8.3.2 Liangjiang New Area as a post-crisis regulatory ‘fix’

State rescaling, as Chapter 2 has argued, is an active process of reconfiguring regulatory relations. In Chongqing, a new round of experimental policies was set in motion after the global financial crisis struck in 2008. Interestingly, as intimated in Chapter 6, this corresponded with the Guangdong government’s to cope with the financial crisis. The remaining part of this chapter will demonstrate how the production of Liangjiang New Area was a multi-scalar process made possible by political strategies of ‘scaling up’ by actors based at the provincial scale, changing external economic conditions and macro-level adjustment considerations (or hongguan tiaokong, as discussed in Chapter 2) in the central government.
Just as the new Bo Xilai administration was tasked to put the ‘314’ approach in practice, the global financial crisis in 2008 opened up new possibilities to justify the production of a new economic growth pole. To the Chongqing mayor, Huang Qifan, the global financial crisis provided an “opportunity” for the formation of a new economic development zone in the western interior:

In the June-July period of 2008, we organized a whole meeting of the municipal committee and decided on developing a liberal growth pole in the interior. Actually in February and March of 2008 we already began preliminary discussions on a strategy to push forth economic liberalization. The opportunity for this was the global financial crisis, there was a global [economic] contraction of around 30%. (Interview with 21st Century Business Herald, 17 April 2010; author’s translation).

Weng Jieming, the former Director General of management committee of Chongqing Liangjiang New Area, offers an expanded elaboration of the contextual factors that made possible the designation of a “nationally strategic” zone in Chongqing:

In my exchanges with friends, all would raise these questions: Why is Liangjiang New Area situated in Chongqing? Why did the national government choose to establish Liangjiang at this time? I feel it is related to the broader context of national development. Two criteria are extremely important. One, the macro-level strategy of national economic development has reached a time when major decisions about adjustments must be made. Two, the launch of the new decade of the ‘Great Western Opening Up’ program required important action. These two criteria are directly related to the need to establish a ‘carrier’ (zaiti) in the hub on China’s interior. (Interview with China Web, 27 Sep 2010; author’s translation)

As Weng’s comment shows, another major experimental project of significance is the cross-provincial ‘Great Western Opening Up’ development agenda. Mooted in 1999 by the Jiang Zemin administration and launched a year later, the agenda has been largely placed at the discursive level, with no targeted growth poles or systematic restructuring strategies launched at the metropolitan scales. As Chapter 5 has elaborated, the primary contribution of these broad regional programs is to establish a geographical consciousness. Because more targeted strategies were not immediately forthcoming in the early 2000s, the Chongqing government decided to be proactive in driving economic development in the municipality.

In itself this observation underscores the fact that the overarching developmental agenda of the Hu Jintao government could not move away from a path based on coastal bias. More crucially, it demonstrated the Hu government did not have a targeted approach to overcome this bias prior to the global financial crisis. In this regard, Weng’s comment was
telling: Liangjiang New Area became reality because of both the global financial crisis and the consequent attempt to effect change at the subnational levels to ensure *nationwide* politico-economic stability (cf. Chapter 2):

Right from the beginning Liangjiang ‘carried on’ the role as the breakthrough point of China’s strategic readjustment strategy. After the global financial crisis, the export-dependent, external demand-dependent developmental model that drove the reforms and liberalization for the past few decades was challenged. Under this situation, we wondered what methods could enable high-speed economic development, and determined it should be driven by domestic demand. This lead role has been on the agenda for many years, and the establishment of Liangjiang New Area, in tandem with the development of the broader interior hinterland, would realize this. Second, regional development would require a growth pole, and within the growth pole there must be a nucleus...In this new decade of Great Western Development, there is a need to balance the east and the interior, and bridge the flow from south to north. The western cities of Chongqing, Chengdu and Xi’an could all become regional growth poles for the interior, but there must be a nucleus, hence the leaders in the State Council mentioned many times that [because] Chongqing is a ‘national central city’ of China, a nucleus could be formed within it to push forth regional development in the west and in turn reduce uneven development. These two reasons constitute the broad background for the formation of Liangjiang New Area. (Weng Jieming, Interview with *China Web*, 27 Sep 2010)

On their own, the interaction of an external phenomenon (the financial crisis), a domestic spatial project (the Great Western Development Program) and Chongqing’s designation as a “national central city” could not explain why other cities like Chengdu and Xi’an were not preferred as “nationally strategic” sites. Indeed, while the Chinese central government was under pressure to ease the impacts of the global financial crisis on the Chinese economy by setting in motion an economic restructuring plan, it was *simultaneously* under pressure from many provincial and municipal governments across the country to be ‘scaled up’ as key focal points for the national restructuring strategy. As Chapters 6 and 7 have shown, the Guangdong government was proactively seeking to ‘scale up’ three key cities while it launched a ‘double relocation’ restructuring project. And as presented in Chapter 5, the Vice-chairman of the PBoC, Pan Gongsheng, acknowledged that fierce competition exists at the inter-provincial level when it comes to securing the authority to launch “nationally strategic” financial reforms.

Against these bottom-up initiatives to gain “move first, experiment first” power, sensitivity to policies and practices instituted before the 2008 global financial crisis is necessary. New information further reinforces the previous point that the Chinese central government did *not* have a coherent growth-pole strategy for the western interior prior to the 2007 financial
As Xiao Jincheng, director of the Institute of Spatial Planning & Regional Economy of the NDRC, revealed to the 21st Century Business Herald (27 December 2013) the CPC never intended to launch new “nationally strategic” growth poles for the entire state spatiality after 2006:

A “nationally strategic new area” is first and foremost a ‘hat’ – it is to be the focal point from all directions... Thinking back, the state did not have an objective plan to designate a third or fourth ‘new area’. On the contrary, after demarcating Tianjin Binhai New Area, the central government had the intention to put a full stop [to this strategy]. Subsequently Wuhan, Shenyang and Chengdu were all fighting to get the growth pole status but was disregarded by the state, no ‘hat’ was conferred on any party. After approving the demarcation of Binhai New Area, no other new area [at the sub-provincial scale] was approved until 2010, when Liangjiang New Area was designated. (Author’s translation)

Viewed in relation to Weng’s comment, Xiao’s recollection raises an important question: was the designation of ‘national central city’ really the deciding factor why Chongqing was chosen as the site to launch a ‘growth pole nucleus’? As their comments and the empirical analysis in Chapters 6 and 7 demonstrate, the central government was not short of alternatives when it came to selecting new “nationally strategic” new areas. Crucially, from Weng’s comments in two separate instances, it can be ascertained that the ability of the Chongqing government to change its positioning “from the ‘third front’ to the ‘first front’ was an outcome of its “proactivity” (zhudong):

Chongqing will transform from the ‘third front’ to the ‘first front’, to become the frontier of liberalization in the [Chinese] interior. Confronting the global financial crisis and the huge transformations related to China’s national developmental readjustment, the Chongqing municipal committee and government proactively included itself in the national strategy just before the new Great Western Development plan was launched. It grasped the initiative to enable Liangjiang New Area to become the launch-off project, the motor and important window, of this new plan. (Weng Jieming, interview with Chongqing Ribao, 6 August 2010; author’s translation)

As for why the central government preferred Chongqing, this has to do with the proactive working initiatives in the Chongqing government. As early as 2008 the municipal committee has established the opening up of the interior as a working target, a plan to establish an experimental zone for the interior was developed back then. Since this zone lies between the Yangtze and Jialing rivers, hence it took on the name of Liangjiang (‘Two Rivers’). Subsequently we built on the adjustments in national developmental strategy and the launch of the new decade of ‘Great Western Opening Up’ and continuously lobbied ideas to the central government, a central-local coordinated movement was established at this unique conjuncture, all parties came to a consensus, and Liangjiang New Area was born. (Weng Jieming, Interview with China Web, 27 Sep 2010; author’s translation)

In another interview with Chongqing Ribao (7 September 2010), Weng pointedly stated that the rescaling of Liangjiang was not “an innocent and simple coincidence”:
From this year [2010], the central government has intensified the launch of the Great Western Development Program. In May the Political Bureau of the CPC Central Committee...indicated it would prioritize opening up the western region in the overall national-level regional coordination strategy...Similarly in May, the State Council issued [On the decision to approve the establishment of Liangjiang New Area] (National document 36, 2010). At an important conjuncture in which the state pushed through a new round of Great Western Opening Up, Liangjiang New Area emerged, this should not be an innocent and simple coincidence. (Weng Jieming, interview with Chongqing Ribao, 7 September 2010; author’s translation)

Through two interviews with Chongqing-based academics who participated in several planning seminars prior to the establishment of Liangjiang, this chapter found that the Chongqing government led by Bo Xilai was instrumental in converting Liangjiang from idea to reality by building on the broader backdrop of the ‘314’ integrated program:

The path for restructuring was already set for Bo by the earlier government led by Wang Yang. It was originally only reforms on urban-rural integration, and Bo did a great job publicizing these reforms. It was only after he came that the Liangjiang project was launched, it was built on the social reforms set in place for him to carry out. (Interview with academic A, Chongqing, March 2012)

Just before Bo Xilai was appointed in Chongqing, the Ministry of Commerce [where Bo was Minister] signed a memorandum with the Chongqing government [led by Wang Yang, who was posted to Guangdong] to explore developing Chongqing into a more open economy. Immediately after his transfer, he inspected the area where Liangjiang is located, and in January 2008 Chongqing officials received instructions to think about how to develop a new economic zone. In April 2008, less than five months after Bo’s Chongqing appointment, the Chongqing government proposed to then Chinese Premier Wen Jiabao 12 new policies for the development of a ‘liberal’ area. Wen immediately agreed to send people from the central government to conduct more research. Two months later they [the Chinese State Council] dispatched 219 people to launch a series of studies. (Interview with academic B, Chongqing, March 2012)

Taken together, the comments of Weng, Xiao and the two academics strongly suggest the post-2007 Chongqing government adroitly built on the agenda set by his predecessor Wang Yang (in tandem with the central government). Academic B’s comment further reinforces the notion that Bo already fashioned the idea of a growth pole nucleus prior to his posting to Chongqing. Yet pushing through his proposed ideas did not mean pleasing only the ‘experts’ from the central government; the Bo administration, as an interview with a planner in Beijing (February, 2012) reveals, encountered strong opposition from economic geographers with strong ties to the central government. One of these geographers, X from a highly renowned institution in Beijing, was famous in policymaking and academic circles for a geographically-functionalistic framework that portrayed coastal China as enjoying intrinsic comparative advantage in trade over interior China. X was of the opinion that establishing Liangjiang New
Area was a waste of resources because transportation costs would be too high, and sought to have his opinion heard by the State Council. This duly delayed the approval process. While it was not publicized, the author learnt that the Chongqing mayor Huang Qifan travelled to Beijing to allay academic X’s concerns. How this was done was unclear, but the State Council eventually passed the proposal in January 2009.

Viewed in relation to the production of Hengqin and Qianhai New Areas (see Chapters 6 and 7), these findings lend further support to the argument that the Chinese central government did not have a spatially-targeted rescaling agenda; the emergence of experimental policies in the “nationally strategic new areas” were simultaneously opportunistic reactions by the central government to macro-level challenges and ‘bottom up’ initiatives by provincial-level governments to gain an advantage in what Li and Wu (2012: 55) term “excessive” territorial competition (ref. review in Chapter 2). Xiao Jincheng of the NDRC sums up the spontaneity of the rescaling process:

There was no logic to abide, at most it was to actualize regional coordination. In practice it was to place the new area against a broader backdrop of integrated experimental reforms. For instance, after integrated reforms were introduced in Pudong and Binhai, new reforms on efficient resource use were introduced in Wuhan, Changsha [in central China] and urban-rural integration reforms introduced in Chongqing and Chengdu. Xiao Jincheng, (Xiao Jincheng, Interview with 21st Century Business Herald, 27 December 2013)

While the Chongqing officials lobbied the central government for ‘move first, experiment first’ policies, it was actively courting TNCs. Differing from other industrializing projects in China, where a common strategy was to begin first with the redrawing of spatial boundaries before attracting firms with some preferential policies, a concerted strategy was drawn up to bring in firms before the boundaries of Liangjiang New Area were demarcated. As section 8.2 has explained, a major factor that enhanced Chongqing’s competitiveness was its ability to enhance time-space compression. Connectivity to global markets was deemed crucial to the success of a growth-pole nucleus in the western interior. For this reason, the Chongqing government invested heavily in infrastructural facilities in order to enhance the municipality’s economic-geographical position (ref. Box 8.1). Once the requisite infrastructure was in place, transport costs were no longer a limiting factor. State officials then went on a proactive drive to
enroll transnational economic actors. Chongqing mayor Huang Qifan offers an elaborate explanation of this enrolment process:

To break through this predicament, we fully grasped the fortuity presented by reconfiguration of the global IT industries and made two innovations in Chongqing on the export-processing model for inland regions. First we built a full-flow supply chain for parts and final product (quantilucheng cayelian), transforming the horizontal division of labor into vertical integration [of the production process], with 70-80% of spare parts to be produced locally. This transforms the ’two heads beyond’ model into ’retail beyond, spare parts supply and integration within’ [’one head within, one head beyond’], which greatly reduces or even removes the transport costs associated with spare parts supply. (Interview with DushiKuabiao, 7 March 2011; my translation).

This new model moves beyond the quest for just-in-time (JIT) production, which technically could occur even within global production networks, to an almost total territorialization of these networks in Chongqing. Just as some firms seek cost advantages by choosing to produce in-house, the Chongqing government was seeking cost advantages by bringing together all levels of specific production networks like computing notebook manufacturing in situ. And these levels include some aspects of advanced producer services:

We changed a pattern of the offshore location of settlement services for high value-added production. We discovered this problem, which was very common but nobody seemed to give it much attention, when we were trying to bring in Hewlett-Packard. We brought in Hewlett-Packard’s US$100 billion worth of settlement accounts when it relocated its Asia-Pacific settlement centre to Chongqing from Singapore, because of this, the taxes drawn from these services and the banking service fees would be retained in Chongqing. Through these innovations, we successfully constructed a “2+6+200” notebook production industrial agglomeration, comprising Hewlett-Packard and Acer as two ‘dragon heads’ [i.e. lead firms], Foxconn, Quanta, Inventec, Wistron, Pegatron and Compal as six major subcontractors, and 200 odd spare parts producers. This develops a 100 million-capacity, US$100 billion value computer notebook production base, the largest in Asia, which significantly transforms Chongqing’s economic structure. (Ibid.)

The Chongqing government’s ability to effect the relocation of Hewlett-Packard’s supply chain did not happen in a geographical-historical vacuum. As mentioned earlier, the basic infrastructure was already in place; what was needed to make Liangjiang New Area a success is its ability to generate income and employment. This strategy to woo lead firms and their suppliers corresponds to what Yeung (2009: 213) terms “strategy coupling”, which “in the context of urban and regional development...refers to the dynamic processes through which actors in cities and/or regions coordinate, mediate, and arbitrage strategic interests between local actors and their counterparts in the global economy”. It was arguably the successful attempt at “strategic coupling” that allowed the incoming Bo administration to make a stronger
case for Chongqing to become the site of new “nationally strategic” reforms.

The outcome is a delicate balancing of place-specific institutional power with corporate power, two distinct forms of power Henderson et al (2002) identify as crucial to territorially embedding global production networks. It was this “coupling process”, this chapter argues, that enhanced the attractiveness of Chongqing as a frontier of experimental reforms vis-à-vis other locations in the western interior. By extension, it reinforces the point in Chapter 2, 6 and 7 that state rescaling is produced in part by local initiatives. As Coe and Hess (2011: 131–132) elaborate, the “coupling” process is “strategic” because 1) it relies on intentional action and active deliberation; 2) it is time and space contingent, involving the construction of a ‘temporary coalition’ between groups of actors who might not otherwise work together in the pursuit of a common objective; and 3) it transcends territorial boundaries, bringing together actors who operate across different spatial scales. This conceptualization fits the approach of the Chongqing government: it understood the global financial crisis was causing Hewlett-Packard to rethink its spatial division of labor, and, in Coe and Hess’s terms, “intentionally” offered new conditions to the firm in the hope that it would trigger “active deliberation”:

When Hewlett-Packard was planning production increases at the beginning of 2009, most sales of computing products were affected by the global financial crisis and began to dip, only the sales of notebooks continued to increase because of technological shifts, total output was expected to double to 320 million by 2012. Where would this production increase be done, through the Chinese coastal region or somewhere else? Hewlett-Packard was searching for a place to expand production capacity, if they relied on their old strategy they could continue their ‘two heads outwards’ approach… But then the labor and land costs were increasing significantly in Shanghai, at that moment if there was a place that had all sorts of costs, including that of labor, that was lower than Shanghai, then Hewlett-Packard would be moved.

At the beginning of 2009 we approached Hewlett-Packard for discussions. At the time they felt our transport costs were high, they wanted us to subsidize it. We then proposed our ‘one head out, one head in’ model, making the point that our transport costs could only be lower than those along the coast. And we told Hewlett-Packard at the time, if you only intend to produce several tens of thousand units in Chongqing, spare part suppliers would not come over to Chongqing. Yet if Hewlett-Packard would place an order of 40 million units, then the suppliers would also come, and an agglomeration effect would emerge. (Huang, Economic Information Daily, 21 April 2010)

After Hewlett-Packard agreed to the Chongqing government’s proposal, plans were swiftly implemented to form a place-based “temporary coalition” involving actors originating from
different geographies. This came in the form of driving extensive supply-chain migration in the transnational notebook-manufacturing sector:

Immediately after speaking to Hewlett-Packard, I went to Taiwan on 9 February 2009 to visit Terry Gou [chairman and founder of parts giant Foxconn]. Within three minutes of entering his conference room I went direct with him, saying I was not there to implore him to attract investments (zhaoshang) but to do a transaction: Hewlett-Packard would like to produce 40 million units of notebook computers in Chongqing because we wanted to have integrated production. You produce spare parts in the coastal region for 50 million units of computers, but never produced a full unit. If I give you 15 million of the 40 million units Hewlett-Packard intends to produce, Foxconn could make full units in Chongqing. But I request you bring along the whole system of spare part production from the coastal region to Chongqing, because the costs of making spare parts are lower than in the coastal region. Terry Gou and I hit it off right away. (Huang, Economic Information Daily, 21 April 2010)

At this point, it would be useful to note that strategic coupling did not in itself guarantee state rescaling or policy experimentation through Chongqing. Occurring more than one and a half years before the official unveiling of Liangjiang New Area, the proactive approach to embed transnational capital undergirded the actualization of the ‘862’ industrialization strategy (ref. Table 8.2). Targeting transnational lead firms like Hewlett-Packard raised the profile of the municipality and proved that it was possible for a location in interior China to offer new productive capacities for global capital. While it was unclear if special subsidies were given to Foxconn or other incoming original equipment manufacturers, there was a parallel effort to subsidize costs of labor through the public rental housing construction and the conferment of basic social benefits for migrant workers (see Chapter 9). This arguably helped to keep already lower labor costs lower than it would be if firms have to factor in costs of social reproduction (e.g. building dormitory complexes).

The proactive attempt to bring in foreign capital generated initial economic success. At the launch of Liangjiang New Area, 54 Fortune 500 firms announced they would establish operations in the zone; by the end of 2013, 118 Fortune 500 firms were operating in Liangjiang, generating US$30.5 billion of exports (44% of the Chongqing total) (Xinhua, 22 January 2014). This growth was arguably not envisaged when the ‘314’ developmental approach was launched in 2007. As Huang further explains, he had to fend off competition from other western Chinese cities for TNCs and suppliers, further affirming the argument that the establishment of a growth
pole nucleus in Chongqing was not predetermined by the Chinese central government:

Chengdu tried to compete with us for Inventec and Foxconn. At the beginning they just followed the usual approach of attracting capital, namely through some preferential policies and the low cost of labor as attractions. They did not understand the Taiwanese are just suppliers for foreign firms, they will go where these firms go. I would not avoid telling our brothers in the western interior, the crux of attracting capital is not to attract suppliers, it is to attract Acer, Dell, Hewlett-Packard. And yet these [lead firms] are fierce competitors in reality, hence when Chongqing has Hewlett-Packard, I would not try to bring in Hewlett-Packard's nearest rival Acer, but I will bring in a 5th-ranked competitor such as Toshiba, because they do not pose as big a threat to Hewlett-Packard and could coexist peacefully. (Huang, Economic Information Daily, 21 April 2010)

From the dynamic interaction between the Chongqing government’s ‘strategic coupling’ initiatives and the post-2007 shifts in national developmental strategies, the logic of state spatial selectivity becomes clear. As Chapter 2 has argued, rescaling tendencies emerge not through the central planning agenda; it is dependent on the interaction between different levels of the state system and new opportunities to shape the (re)allocation of capital. For the Chongqing government, a particular opportunity opened up after the global financial crisis went full-blown in 2008. As firms contemplated reorganizing their spatial divisions of labor to exploit cost-competitiveness in the post-crisis era, the challenge for the Chinese central government was to encourage these firms to remain in China. As Chapter 6 has shown, firms in Guangdong were under significant pressure after the global financial crisis; the same pressure was evident in other industrialized city-regions along the coastal seaboard like Shanghai, Kunshan and Tianjin. The difference between these cities in China is that the Chongqing government, just like the Guangdong government, used the crisis as the foil to “scale up” the significance of its economic geographies. In Guangdong it was Hengqin, Qianhai and Nansha New Areas; in Chongqing it was Liangjiang New Area.

With an aggressive “strategic coupling” approach to attract transnational capital, the establishment of Liangjiang New Area provided a very timely geographical opportunity for the Chinese central government to confront the global financial crisis without destabilizing its ability to keep China attractive to transnational circulatory capital. As such, it could be argued that economic-geographical reconfigurations that support the basic structure of the Chinese state and its objectives will be privileged. Clearly recognizing this, the Chongqing government was
active behind the scenes to push for “nationally strategic” institutional change. This ultimately culminated in the plan for Liangjiang New Area, as laid out in Table 8.2.

**Table 8.2 Key aspects & implications of newly promulgated <Plan for socioeconomic development in Chongqing Liangjiang New Area during the 12th Five-Year Plan>, launched September 2011**

<table>
<thead>
<tr>
<th>Aspects</th>
<th>Corresponding references in &lt;Plan&gt;</th>
<th>Implications</th>
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<tr>
<td>Three integrated 'impulses'</td>
<td>• Integrated approach to urban-rural development; ‘open up’ the western interior; &amp; endogenous innovations</td>
<td>• The first targeted spatial strategy in China that projects ‘outwards’ to other scales through the basis of urban-rural integration</td>
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|                                 | • To be actualized through 1) bringing in targeted, large-scale manufacturing & service industries; 2) staggered urban functions to enhance overall municipal capacities; 3) improvements in public service provision standards & people’s livelihoods; & 4) the establishment of export process zones & zones of foreign capital concentration. | • Accentuates the social basis of economic development  
• Builds on the ‘314’ integrated development strategy |
| Spatializing production networks | • Referred as ‘862’ approach to economic development, namely                                   | • Similar to ‘picking winners’ strategy of East Asian developmental states                           |
|                                 | • ‘8’ manufacturing industries (Automotive, infocommunications, rail & transport, high-end assembly, aerospace, recycling, new energy, biomedicine) | • Spatial strategy precedes economic reality: suggests the constitutive importance of supply-side targeting |
|                                 | • ‘6’ service industries (Integrated logistics, commerce, international conventions, cloud computing, corporate HQ & service outsourcing) | • Plans to become internationally-renown offshore financial center highly similar to reform objectives in the GPRD (see Chapter 4) |
|                                 | • ‘2’ hubs (finance and innovation).                                                            | • Strong involvement of the central government suggests Liangjiang New Area constitutes an aspect of ‘central localism’ (ref. Chapter 2) |
| Key regulatory emphases         | • To achieve enhanced development through breakthroughs in reforms of the urban-rural dual structure |                                                                                                 |
|                                 | • To continue pushing for the central government to approve policy experiments in ‘key domains’ (zhongdian lingyu) |                                                                                                 |


**8.4 Conclusion**

This chapter has argued that “nationally strategic” reforms instituted in Chongqing after 2007 were not predetermined by the Chinese central government. Through re-contextualizing these reforms against a longer chain of events originating and occurring in different scales, the chapter shows the transformation of Chongqing to be at once conditioned by inherited policies
extending back to the Mao era and a new experimental agenda to place Chongqing on the world map of high-end manufacturing. As such, while the anti-mafia crackdown may have brought into question the importance of the rule of law; while the ‘red song’ singing campaigns may have made the post-2007 reforms seem ideologically motivated; and while the move to reduce social inequality proved popular (see next chapter), it would be simplistic to construe these reforms as signifying the reemergence of the Cultural Revolution (ref. section 8.1).

The “nationally strategic” reforms to be launched in Chongqing came to be because of specific conditions that were never predetermined by the CPC. This chapter has identified these conditions as, namely, 1) Chongqing’s historical role as an industrial base; 2) Deng Xiaoping’s coastal bias in the initial round of reforms in the post-Mao era; 3) the centrally-mandated Three Gorges Dam construction and the corresponding re-designation of Chongqing into a broader municipality governed by the central government; 4) the reconfiguration of state involvement in the Chongqing economy since the early 2000s; and 5) the '314' integrated developmental strategy launched by Wang Yang, in tandem with Hu Jintao. As the analysis has shown, the interaction of these spatial projects and inherited policies more accurately illustrates why the Chongqing government intervenes significantly in the municipal economy.

To be sure, the ability of the state to transform economic geographies in Chongqing since 1997 could be attributed to an inherited state-state collaborative legacy of the Mao-era: state-owned banks simply found SOEs more credit-worthy than private economic actors, in turn impeding the involvement of the non-state private sector in the foundational sectors of the Chongqing economy. Once successfully reformed, however, it was hard for private economic actors to rival these SOEs. This effect of first-wave reforms in the post-Mao era explains why the Chongqing government could – and, more crucially, continues to believe it should – be the primary actor that drives economic-geographical restructuring (ref. section 8.3). In this respect, the 'big' state in Chongqing is as much an outcome of post-Mao reforms that privileged coastal city-regions as it is about policies implemented in the Mao era.

Viewed in relation to the spatial strategies implemented at the national scale, this lack of
faith by non-state investors could be construed as a direct outcome of Deng’s ladder-step approach to capital allocation (see Chapter 5). The lagging economic growth in the western interior simply provided few opportunities for private investors to appropriate surpluses. Without discernible revenue streams accruing from FDI-inflows and a clear developmental strategy, state-owned banks inevitably preferred working with state-backed partners. The success of Deng’s 1978 spatial strategy – another indicator of institutional strength – thus paradoxically provided the platform for the consolidation of the Chongqing government as an economic actor. In other words, it was instituted economic-geographical disadvantage that impelled the Chongqing government to reproduce its strong grasp on the municipal economy. Ironically, the expansion of market mechanisms across China not only did not encumber state intervention, it enhanced the state’s economic strength (ref. section 8.3).

What this interaction of successive policies demonstrates, then, was the tensions associated with establishing new developmental pathways and the conditioning effects of earlier policies (ref. Chapters 1 and 2). While the Bo Xilai government wanted to 'liberalize' (kaifang) the Chongqing economy and subject it to continuous market reforms, it had to do so on the paths determined by the '314' strategy, namely to drive economic growth on the basis of urban-rural integration. The ‘314’ strategy was in itself a response to the Mao-era “dual structure” and the growing inter-regional inequality caused by Deng’s spatial strategies (ref. Chapters 4 and 5). This explains why the developmental agenda for Liangjiang was driven by “three integrated impulses" (ref. Table 8.2). As such, it would be more accurate to view the ‘Chongqing model’ as a simultaneous attempt to fulfill the agenda to effect spatial egalitarianism (drawn up by Wang Yang and Hu Jintao) and the unprecedented quest for “nationally strategic” growth-pole for capital accumulation in the western interior (drawn up by Bo Xilai and Huang Qifan). Placed in relation to the attempt to reproduce economic competitiveness in Guangdong through new experimental policies (ref. Chapters 6 and 7), it could further be argued that state rescaling in China is highly uneven: each targeted location possesses its unique historical legacy, and the outcomes of policy experimentation would
necessarily bear the effects of inherited institutions. Would it be plausible, then, to extend experiments in one location to the national scale?

While the combination of these two experimental agendas may have been unforeseen, it inevitably raised uncomfortable questions on China’s developmental approaches. As Chapter 9 will elaborate, socially-progressive reforms were presented as *ideologically complementary* to the economic liberalization process, an issue the previous regimes of Deng Xiaoping and Jiang Zemin circumvented. It could thus be argued that the rescaling of Liangjiang New Area enabled the social reforms mandated in the ‘314’ developmental strategy to take on a higher profile; these reforms, which would have occurred even without the production of Liangjiang New Area, became "nationally strategic" by association. And because the reforms could unsettle entrenched practices elsewhere in the country that gave rise to the Chinese economic growth ‘miracle’, strong opposition concomitantly emerged.

**Notes**

1. Whilst officially designated a city, the term ‘city-region’ is used to describe Chongqing for two reasons. One, it occupies a huge land mass of 82,400km², more than double the size of Taiwan; second, a significant portion of this land mass is still farmland and, until July 2012, less than half of the official 29 million population are registered as ‘urban’ residents.

2. The other three province-level cities are along the coast, namely, Beijing, Tianjin and Shanghai. These cities are centrally-governed because they are deemed highly strategic to national political-economic development.

3. As an entity, the ‘Republic of China’ is no longer recognized by the United Nations. It continues to exist in name, however, with its base in Taiwan island, and continues to be recognized internationally by a handful of countries. For a full geo-historical discussion, see Lim (2012).

4. These four SEZs are located in the cities Shenzhen, Zhuhai, Shantou and Xiamen.

5. In March 1985, the Chinese State Council mooted a plan to rescale a ‘Three Gorges Province’ (*sanxia sheng*). This plan would encompass the current Chongqing administrative area as well as western Hubei province. However, for reasons still unknown, the plan was officially cancelled in May 1986.

6. At the time of writing these hubs are Port of Antwerp, Amsterdam and Duisberg. The railway project involves international discussions and commitments by Kazakhstan, Russia, Belarus and the EU. In the early stages, trains run once or twice a month, but, as the author understands, the policy goal is to have it run once a day (Interview, Chongqing, March 2012). This is contingent on enlarging the export capacities of Chongqing-based industries as well as enhanced rail links with other industrialized regions along the coast.

7. While it appears like a paradox, it in reality is a variant of neoliberal transformation, in which the quest for a ‘free market’ is undergirded by a strong state.

8. The initial financing channel was, like many local governments, through debt-financing by major banks linked to the Chinese central government. Currently there are more financing channels (public listing in Hong Kong being a favored mode, the other is to plough back revenue into new investments), although debt-financing remains at around 50% (Author’s participation in academic seminar on ‘Chongqing model’, March 2012).
Chapter 9
State rescaling in and through Chongqing II:
socializing capital accumulation

9.1 Introduction

The urban-rural dual structure is the primary obstacle restraining the integration of urban-rural development. – Communiqué of the 3rd Plenum of the 18th Congress of the CPC (Xinhua, 12 November 2013)

Two decades ago, the proclamation “Development is the absolute principle” (fazhan shi yingdaoli) by China’s then-leader Deng Xiaoping arguably triggered ‘GDP-ism’ across the country. In the subsequent decade, ‘development’ was narrowly interpreted as the inexorable quest to maximize surplus value capture through the market exchange of commodities. The inevitable consequence was pronounced socio-spatial inequality. It was against this national context of economic-geographical unevenness and rising social angst that led Wang Shaoguang (2002 n.p.) to proclaim “social equity is also the absolute principle”. After Hu Jintao became China’s leader in 2003 and launched the ideology ‘Scientific Perspective on Development’, the quest to reconcile high-speed economic expansion with more equitable redistribution gained momentum. As Hu would later add, “development is the absolute principle, [but] stability is the absolute task, without stability, nothing can be done, whatever we have achieved will also be lost” (www.chinanews.com, 1 July 2011; author’s translation). In this regard, Hu’s ‘314’ injunction for experimental reforms in the Chongqing city-region arguably marked a spatial shift in the CPC’s developmental ideology (ref. Table 8.1, Chapter 8). The “absolute” task of producing social stability in China, as the socioeconomic reforms in Chongqing indicate, has to directly address the consequences of instituted uneven development.

It was on the path set by Hu that the Chongqing government framed the development of a growth pole nucleus in tandem with the fortification of the social safety net in the municipality. As the then-Party Secretary of Chongqing Bo Xilai put it, “amongst our country’s four province-level cities, Chongqing’s rural area and population is higher than those of Beijing and Tianjin combined, if we do not do a good job at urban-rural integration, the core city area [of
Chongqing] may advance significantly, but the areas to the south and north would stagnate, urban-rural disparity would then be widened...Chongqing must become a big platform for [policy] experiments" (Economy & Nation Weekly 10 January 2011; author’s translation). To Yang Qingyu, Head of Chongqing’s Development and Reform Commission, the reform objectives in Chongqing reflect a nascent but necessary shift in the philosophy of national-level socioeconomic reforms:

Crossing the river by feeling the stones is done in areas of shallow water, after reaching today’s deep water areas, the river can’t be crossed by feeling the stones, [we] will get drowned, there’s a need to form a bridge, but bridge formation requires integrated techniques. Hence back then [i.e. the nascent years of reforms] it’s possible for a lone soldier to make a breakthrough [across the river], but this cannot be done today. Yet everybody also cannot move forward together, this is the complicated nature of [contemporary] reforms. (Interview with China Business Times, 8 March 2012; author’s translation)

The implication of Bo and Yang’s comments is clear: the state apparatus, rather than private market actors, must proactively ensure the developmental process allows everyone to eventually “cross the river”. This discursive representation distinguished the reforms in Chongqing from those of/in other provinces. What the Chongqing government purported to mitigate were the social costs and spatial consequences associated with urban-based industrialization, an integrated approach that was unprecedented in the post-Mao era. Bo puts the Chongqing government’s path-changing experimental approach in elaborate perspective:

The core value system of socialism does not only exist in philosophy and spirit but in developmental thought and pathways. To insist on socialistic common affluence, in my personal understanding, is a fundamental condition of the socialist value system...While we encourage competition and acknowledge the differences in the incomes of social residents, at the same time we place high importance on social equity, and how the middle- and lower-income group live their lives. *Egalitarian redistribution and high-speed economic growth can be attained simultaneously*; Chongqing has been taking this path these past few years. At the same time as pursuing social fairness and justice, we achieved high and quality growth, I feel it is possible, both can be done simultaneously. (Bo Xilai, open interview with media, transcribed by Xinjingbao, 6 March 2012; author’s translation, emphases added)

Bo’s reference to the “core value system of socialism” was arguably the primary reason why critics were so quick to paint the Chongqing reforms as a radical, left-leaning strategy to reproduce the Cultural Revolution. If anything, the Bo government’s emphasis on the simultaneous enhancement of social and economic life aroused memories of the integrated developmental approach in the Mao-era People’s Communes (ref. Chapter 4). As Chapter 8
has shown, however, Bo's primary contribution during his tenure as Party Secretary of Chongqing was arguably the demarcation of Liangjiang New Area the first growth pole nucleus in the western interior. Rather, it was Wang Yang, Bo's predecessor and the espouser of 'market values' in Guangdong (ref. Chapters 6 and 7), who instituted the reforms to “place high importance on social equity”. In sequential terms, then, the Bo government was adding a strong economic layer to the '314' policy while putting in practice the social reforms initiated by Wang and approved by Hu Jintao.

*Extending the line of argument presented in Chapter 8, this chapter argues that the experimental social reforms in post-2007 Chongqing represent a concerted attempt to (re)generate a socially-equitable developmental pathway last instituted during the first few years of Chinese state formation.* It places these reforms across a longer chain of events that stretches back to the Mao era. In the post-Mao era, as shown in Chapter 5, the generation of GDP became increasingly privileged; state rollback of social benefits subsequently followed, first with the termination of the People's Communes in 1984 and then the fiscal system overhaul in 1994. In colloquial parlance, the politico-economic system increasingly 'determined heroes by GDP figures' (*yi GDP lun yingxiong*), and it was this logic that drove experimental reforms in Guangdong (ref. Chapters 6 and 7). At one level, the Bo government was arguably following the same formula of economic development by launching large-scale industrialization in Liangjiang New Area; what differed was it also *had to* carry out social reforms that the Hu Jintao regime identified as inevitable in March 2007. The emergent reforms in Chongqing were thus a geographically-targeted re-introduction of an integrated developmental approach since abandoned by Deng Xiaoping and his successors.

Specifically, the centerpiece of the experimental reforms in Chongqing was to remove an intractable Mao-era institution – the urban-rural “dual structure” – that undergirded post-Mao economic-geographical development (cf. Chan, 1994; Chan and Buckingham, 2008; ref. Chapters 4 and 5). This chapter will analyze and evaluate the rationale of two interrelated social reforms – the conversion of rural migrants into urban residents and the provision of
public rental housing for these new urban migrants – in relation to their critiques. Through this analysis, it can be further affirmed that the socioeconomic reforms in Chongqing are constituted by a dynamic interaction of policies instituted over an extended time period – they are neither an expression of a definite national developmental agenda nor a unique ‘bottom up’ initiative (cf. Chapter 8; ref. review of the centralization-decentralization binary in Chapter 2).

There are three parts to this chapter. The next section discusses the rationale of the new social reforms, paying specific attention to how these reforms are framed discursively as complementary to the drive for expanded industrialization in Chongqing. Section 9.3 will evaluate the critiques of the reforms. While these critiques portrayed the reforms as an expression of political populism in Chongqing, they take on a different shade when contextualized against a broader chain of events. It will also be shown that the Chongqing government financed the reforms on a cost-recovery model, which further discredits the claims that the reforms in Chongqing signify a return to Mao-era economic governance. Rather, the section makes the argument that the reforms mark an intriguing use of market mechanisms to fulfill state developmental goals. The concluding section will discuss how by the post-2007 socioeconomic reforms in Chongqing brings to the fore empirical findings that helped shape the geographical-historical analysis in Chapters 4 and 5.

9.2 Experimenting with spatial egalitarianism: Public rental housing provision for migrant workers

Against a national context of escalating housing prices, Chongqing’s then-Party Secretary Bo Xilai made a sudden announcement in December 2009: in the coming decade, his government would launch a series of large-scale public rental housing projects to provide affordable housing to low-to-middle income Chongqing residents (estimated to be 30% to 40% of the total population). If unease was the initial reaction for (nominally-)private developers¹, surprise would

¹ Most real estate developers, while incorporated, are either state-owned or joint ventures involving state partners (of different levels of the administrative hierarchy). For this reason, they are “nominally” private, but are in reality entities related to the Chinese state apparatus. Because this state-economy overlap
probably be next: the construction of the symbolically-named *Minxin Jiayuan* (Good Home of People’s Hearts) – the first project of public rental flats – began at the end of February 2010. The timing of Bo’s announcement – which targeted housing a third² of the population in Chongqing’s urban center – appeared highly strategic in retrospect: it dovetailed with the Chinese State Council’s January 2010 injunction to tackle the nationwide housing price inflation mentioned previously.

The primary reason why the large-scale public rental housing construction generated strong attention was arguably because it underscored a fundamental problem associated with market-like rule in China. With the commodification of housing in 1998³, low-income residents in the cities, many of whom are migrants, have been excluded from the housing market. Social discontent grew concomitantly, exacerbated by the massive inflation¹ in property prices in the decade that followed housing commodification. Youqin Huang, a prominent analyst of developments in China’s national housing policies, explains:

> [H]ousing prices have skyrocketed in cities, with the national average housing price increasing by 250% in the decade between 2000 and 2010. The housing price-income ratio classifies much of China as “severely unaffordable” in terms of housing. In big cities like Beijing and Shanghai, a modest apartment can cost multiple millions of yuan to purchase, and thousands of yuan to rent, making housing affordability the top concern of most low- and middle-income households. As a result, millions of migrants have been completely left out of the “Chinese dream,” with few owning homes in cities and most living in extremely crowded, poor quality dwellings. (In *The Diplomat*, n.p. 14 May 2013)

Of particular significance, Huang adds, is the connection between housing unaffordability and one’s *hukou* status, which in turn accentuates the tension between housing commodification, a post-Mao development, and the *hukou* institution, an enduring product of the ‘socialist high tide’ of 1958:

produces different economic groups, all with separate profit-seeking interests, it is often said that reforms in China has to negotiate a labyrinth of “vested interest groups” (*liyi jituan*).

² Comparatively, National Bureau of Statistics of China data puts public rental housing at an estimated 7% of the national urban housing stock in 2007 (see Man 2011). Assessed vis-à-vis growing urbanization and housing price inflation, it is clear that following nationwide housing reforms, there has been a marked shift towards the private provision of residential housing.

³ After Deng launched China’s economic reforms, housing officially became a commodity in China in 1988. Since 1998, state-owned work units were prohibited from directly providing housing for workers, which expanded private housing markets. (For more elaborate discussion, see Zhou and Logan, 2002; Huang, 2004). Together with the effect of surplus capital looking for new investment outlets, prices for privately-supplied housing have experienced an upward surge since the mid-2000s. This consequently produced what the *New York Times* (14 April 2011) called “China’s scary housing bubble”.

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Migrants are generally more vulnerable in the housing market due to their lower incomes and the discriminatory Household Registration System, or *hukou* system (often called an internal passport system), under which migrants are not considered “legal” residents in cities despite living and working in there over the long-term. Without local urban *hukou*, migrants are not entitled to welfare benefits such as subsidized housing. Even in Shenzhen, the city of migrants, local *hukou* is required to access low-income housing. In others cities like Beijing, several years of local *hukou* is required before applying for low-income housing. (Ibid.)

Because residents holding urban *hukou* almost always enjoy better social benefits than those holding rural *hukou*, rural residents often find themselves disenfranchised and discriminated against when they relocate to cities. While the abolition of this institutionalized inequality is regularly touted, its structure remains intact and is seemingly intractable (Chan and Buckingham, 2008). In Chan’s (1994) evocative terms, these migrants continue to live in “cities with invisible walls”. These seemingly intractable issues pertaining to the provision of low-income housing in the city to non-urban *hukou* residents would be addressed in Chongqing.

In contrast to the Mao-era ‘dual structure’, the public rental housing project is an attempt to open up the public housing sector – previously the preserve of selected SOE employees – to the city’s lower-income residents (from Chongqing’s rural districts as well as other provinces) who might otherwise decide against moving into or near the Chongqing core urban area where major industrial zones (particularly Liangjiang New Area, the flagship industrialization project of the Chongqing government) are located. As mentioned in Chapter 8, state subsidization of social reproduction is a crucial ingredient for the fulfillment of *nationally-mandated* industrialization objectives in and through the city-region. As Chongqing’s mayor Huang Qifan explains:

> The large scale construction of public rental housing not only guarantees weaker groups the ability to lead life with dignity, it will also improve Chongqing’s investment environment and stimulate the local economy. Through reducing the cost of living, [affordable housing] can attract talents and firms and infuse life into Chongqing’s economic development, this is way more meaningful than land-based financing [tudicaizheng] through high property prices. (Interview with CCTV; transcribed by *Chongqing Wanbao*, 5 September 2010; author’s translation).

> Because of the separation between the government and [private] firms, the government and society take over [responsibility for] the workers’ lives, firms need only build factories, they need not build dormitories, hence their could reduce their investments, this is beneficial for attracting investors and capital. (Interview with *China Reform*, November 2010; author’s translation)

In addition, Huang and Tang Zongwei, the deputy director of the Liangjiang New Area Administrative Committee, elaborate on how the large-scale state investments in public rental
housing cannot be defined narrowly as process to reduce social discontent. Rather, and in an approach that diametrically contrasts Wang Yang’s subsequent “double relocation” project in Guangdong (ref. Chapter 7), investments in social reproduction were deemed to be integral to the national strategy to establish Chongqing – and Liangjiang New Area in particular – as the economic fulcrum (jingji shuniu) of interior China:

The entry of rural workers into the city cannot lead to new poverty enclaves, nor can they be allowed to buy houses, they can’t afford it. Since there are several million people waiting to enter the city [i.e. Chongqing], we must find a way to solve their housing needs…so long as you are a worker in Chongqing, so long as you have worked for three, five years, the city needs you to work, then you can apply for rental housing. For new university graduates who enter Chongqing, so long as a firm employs you, then you can apply for rental housing. In sum, our housing safeguard system runs on the basis of urban-rural integration. (Huang Qifan, interview with www.news.cn, 8 March 2012; author’s translation)

Just within Liangjiang New Area we aim to construct around 8.5 million m$^2$, this does not include the public rental housing planned elsewhere in Chongqing municipality…The meaning of our public rental housing project is distinct from conventional notions, our project is to assist those who are just about to commence employment or become entrepreneurs. These groups of people come from everywhere, they either do not have housing or temporarily cannot afford housing, if you don’t assist, they can’t settle down. Hence our public rental housing is targeted at a million university graduates, researchers and high-quality industrial workers, it is to help them enter Liangjiang, to help them integrate in this city, and it simultaneously resolves the problem of industrial support. (Tang Zongwei, interview with 21st Century Herald, 27 November 2013; author’s translation)

Within the broader reform package, the rental housing project’s socioeconomic objective complements another urban-rural integration policy, namely the flexible conversion of rural migrant workers’ hukou into ‘urban’ status (see Table 9.1). As Youqin Huang’s previously-mentioned comments indicate, most migrant workers nationwide could not qualify for subsidized public housing in cities across China. The reform of hukou institutions in Chongqing is thus a spatially-targeted attempt to overturn the socio-spatial exclusions engendered by this enduring Mao-era legacy. Crucially, as Chapter 8 has explained, this reform would have taken place independent of the rescaling of Liangjiang New Area; it was set out by the ‘314’ developmental agenda instituted by then Chongqing Party Secretary Wang Yang. Central to this agenda, as the Chongqing mayor Huang Qifan was at pains to point out, is a recognition of

While the post-2007 per capita gross income in Chongqing have risen significantly, the disposable income of rural residents remained relatively low at ~5278 yuan per capita in 2010. Per capita disposable income for residents with urban hukou was ~17532 yuan (Chongqing Shangbao, 28 January 2012). Comparatively, per capita disposable income for Shanghai’s urban residents was 31838 yuan in 2010, while rural residents earned 13746 yuan per capita (www.eastday.com, 25 January 2011).
peasant migrants’ inherent right to be treated equally as full Chinese citizens, not just as economic units of labor power:

Assuming a city has 3 million registered residents and 7 million peasant workers, after a few decades, when the city does not need these rural workers, they are dismissed back home, pushing the population down to only the [original] 3 million registered residents, then this urbanization process is unhealthy, abnormal, it violates international conventions, it violates market principles, it violates the principles of fairness and justice. (Mayor Huang, interview with *China Economy and Informatization*, 18 January 2012; author’s translation).

Improving the treatment of peasant migrant workers is a matter of human rights, it is a problem of citizen rights. To treat peasant migrant workers benevolently is a matter of our conscience, it is a matter of governors’ consciences…Over the past few years Chongqing arranged for 3.6 million peasant workers to convert their *hukou*. The crux of our program is to facilitate peasant workers to enter the city, not to have more peasants in the city. With the development of urban-based industries, many new industrial and service sector positions have become available, they need to be filled by a large number of peasant workers. In the several years where these workers help fill the open job positions, it would be unreasonable if you do not provide them with urban *hukou*, it would be unjust, this would be half-baked urbanization, not a true urbanization. (Interview with *China Economic Weekly*, 18 March 2013; author’s translation)

### Table 9.1 Key characteristics of evolving *hukou* reforms in Chongqing (cf. Table 4.1, Chapter 4)

<table>
<thead>
<tr>
<th>Geo-historical context</th>
<th>Objectives of <em>hukou</em> reforms in Chongqing</th>
<th>Policy shifts</th>
</tr>
</thead>
</table>
| • Instituted in 1958 by the Mao Zedong government to control population movement | • To guarantee the interests of those who work in the city without urban residency  
• To improve rural productivity through the transference of spare labor to the urban areas  
• To improve the urban population structure and alleviate the pressure of an aging society  
• To expand domestic demand  
• To speed up the process of urbanization. | • Reforms officially launched on 15 August 2010 with the introduction of “The Opinion on *hukou* Institutional Reforms in the Urban-rural Integration of Chongqing Municipality”  
• Based on a ‘voluntary, compensatory’ (*ziyuan, youchang*) principle  
• Expanded provision of social benefits for urban *hukou* holders: partially financed through fiscal redistribution, with firms & urban residents contributing the rest  
• New urban migrants will enjoy, amongst other social benefits, access to public rental housing if they meet the stipulated conditions  
• Switching the right to use land is not a precondition of *hukou* conversion*;* the transference of land rights is voluntary and all transfers will be compensated |
| • Citizens broadly categorized as ‘urban’ and ‘rural’; *hukou* (household registration affiliation) determined social benefit provision, administered by provincial governments;  
• Primary aim was to control the right to the city by preventing mass rural-to-urban migration; hence widely viewed as a form of socio-spatial apartheid and institutionalized inequality  
• Right of movement significantly relaxed since the 1990s as industrialization expanded in cities, but the system remains relatively intact | | |

* Sources: Chan and Buckingham (2008); *Caijing* (30 August 2010; 30 August 2010); data compiled and translated by author. Ref. also Table 4.1, Chapter 4.

* After this standpoint is cross-referred with the published regulations, the relationship between *hukou* conversion and ownership of land use rights remains unclear: the new regulation states plainly rural residents have three years to relinquish their land if they choose to convert *hukou*, which contradicts the discursive statements that *hukou* conversion is not entwined with land rights transfer. The disentanglement of *hukou* conversion with land rights transfers – which precludes the creation of a ‘third category’ of citizens with urban *hukou* status and rural land use rights – therefore remains a policy ‘grey zone’.

To mayor Huang, the impossibility of launching instant reforms is precisely why the *hukou* institutional reforms must be implemented in stages. After all, socio-spatial
transformation – which is akin to forming a bridge for a large party to cross a wide and deep river – requires time:

The urbanization process cannot envisage a situation where, after two groups of people were kept apart for thirty or forty years, several hundred millions of rural workers are accumulated in cities and then suddenly it is announced their hukou will be changed. This [hukou conversion] should not be a sudden occurrence, it should begin now, it should be a natural and continuous transformation process. (Interview with China Economy and Informatization, 18 January 2012; author’s translation).

Huang’s emphases on “fairness”, “justice” and “citizen rights” in Chongqing signifies an attempt to broaden the entitlements of what Smart and Lin (2007) term “local citizenship”. For Smart and Lin (2007: 286), “local citizenship” is an extension of local governmental commitment and redistribution; it is a recognition “of the way in which China’s distinctive system of household registration combines with the collectivist/exclusivist elements of the key social institutions of the danwei (enterprise) and the village to produce a system in which entitlements of citizenship are determined locally” (cf. Zhang, 2002). There is a nuance in the re-determination of local citizenship in Chongqing, however. While the large-scale hukou conversion of peasants into ‘non-agricultural’ citizens and, concomitantly, the provision of social services to accommodate their relocation to urban areas are indeed “determined locally”, they are at once an outcome of centrally-facilitated experimental power (i.e. xianxing xianshi quan; ref. section 9.2). Indeed, it was only after China’s President Hu Jintao issued a ‘314’ integrated development strategy for Chongqing in 2007 that the city-region’s policymakers immediately went about launching policies to reduce the inherent rural-urban barriers (chengxiang bilei; ref. Table 8.1, Chapter 8). The “local” attempt to enhance citizenship rights in Chongqing is thus more aptly conceptualized as a centrally-driven path generating effect.

One primary expression of this effect is the provision of public rental housing to rural residents expected to convert their hukou to the ‘non-agricultural’ (or, more simply, ‘urban’) category. Expanding housing supply to support hukou reforms (50% of rental housing stock is allocated for new peasant migrants) is an experimental attempt to combat house price inflation, as mentioned earlier a phenomenon triggered by the nationwide commodification of housing provision. This process takes on social significance as spiraling housing prices would certainly
have the greatest impact on newly-minted urban residents who, like their predecessors in many of China’s urban-industrial parks, are most likely to be employed in low-wage, labor intensive industries or service sectors in Chongqing’s urbanized industrial areas (particularly in the ‘nationally strategic’ Liangjiang New Area).

The integrated approach to reform the ‘dual structure’ and produce a new growth pole nucleus in Liangjiang New Area led to a surge in both GDP and fixed capital formation (see Figure 9.1; cf. Chapter 8). Until the appointment of Bo Xilai as Party Secretary in late 2007, the annual GDP expansion rate ranged between 8% to 12%. This rate quickly moved beyond 20% within three years. Chongqing’s GDP registered a 21.4% expansion in 2010; its 26.3% growth in 2011 topped China’s provincial-level GDP growth charts (Chongqing Municipal Bureau of Statistics, 2013). Perhaps more intriguing is the scale of its fixed capital formation, which surged from 56% of GDP in 2007 to 88% of GDP in 2011, almost double the (already-high)
national average. This positive relationship between high GDP growth and high fixed capital formation strongly suggests the latter constitutes a significant portion of GDP. With SOEs, collectives and joint ventures driving at least 40% \(^2\) of these investments since 2008, it lends support to the argument that the rapid GDP growth in Chongqing was an outcome of a ‘big’ state reminiscent of the Mao era. While these strong growth figures seemingly support Bo’s argument that high speed GDP growth could occur in tandem with the enhancement of social equity, they ironically became the symbol of what is wrong about the Chongqing ‘model’.

9.3 Market-based Maoism?

As the socioeconomic reforms in Chongqing gradually became reality, oppositional voices from national academic and media circles grew concomitantly. Specifically, the Chongqing reforms triggered a nationwide debate on ‘making a bigger cake’ (zuoda dangao, or the economistic developmental approach widely associated with that adopted in Guangdong) in relation to ‘sharing the cake well’ (fenhao dangao, or redistributing existing gains). This debate illustrates two seemingly incommensurable logics of socioeconomic regulation across China: to some, redistributing resources to enhance socio-spatial justice was the antithesis of expanded capital accumulation, while others viewed the enhanced stability accruing from redistribution as the precondition of expanded accumulation. While this debate appears to have occurred because of the Chongqing reforms, it is more accurately an effect of planned uneven development by the Mao administration.

After Deng launched experimental reforms in 1978, the Chinese central government’s approach to national governance suggests clearly that ‘cake sharing’ is less important than ‘cake making’. “To compete for foreign investment”, Wu (2009: 842) observes, “local states [in China] maintain a stable social order and invest heavily in productive infrastructure such as roads and airports, while being reluctant to roll out welfare services.” Where and when redistributive policies are implemented, they tend to take on a distinct bias towards producing facilities for economic production. By implication, then, only areas considered strategic to GDP-
growth are deemed worthy of fiscal support. It was arguably for this reason that the huge costs of public rental housing construction and hukou conversion in Chongqing became the primary focal point of prominent critics. How, indeed, could expanding access to social benefits contribute simultaneously to growing the cake of capital?

Speaking to *Investor Journal*, Mao Yushi, the Chairman of the Unirule Institute of Economics in China and winner of the Cato Institute’s 2012 Milton Friedman Prize for Advancing Liberty, believes the Chongqing government is overextending its finances through debt-financing in order to generate political populism:

> The construction of rental flats is an attempt by the government to curry favor with the people, but where is the government’s money from? From taxpayers. [...] Without the creation of wealth, there is no wealth to redistribute, is Chongqing more efficient than other places in wealth creation? The strong development of state-owned enterprises in Chongqing...is a way to decrease efficiency in productivity. Under such a situation, where do you find so much money to do good things for people’s lives? It’s very possible that [the policies] depend on bank credit. (Interview with *Investor Journal*, 26 March 2012; author’s translation)

Wu Jinglian, a highly-influential economist and a senior economic advisor to China’s State Council, echoes Mao’s views:

> Such populism means sparing no expense to please the population, but it caused many problems for Chongqing’s budget. One cannot invest such huge resources while having little regard for where such resources come from. One also has to consider whether such investments produce returns. (*South China Morning Post*, 26 March 2012)

These comments exemplify a belief in the inherent superiority of a self-regulatory market. As Wu Jinglian has argued elsewhere, only two possible developmental trajectories exist for the Chinese economy in the current conjuncture: one involves the “perfection” (wanshan) of market reforms, with political power circumscribed by the rule of law, the other a “cul-de-sac” (qiongtu) characterized by state capitalism and crony capitalism (*China Entrepreneur*, 10 September 2013). For Mao Yushi, the market is quite simply “the most successful institution” in the course of human history (Interview with *Shenzhen Special Zone Daily*, 4 June 2012). Placed in relation to concrete empirical facts in China, however, this market fundamentalism is shaky in two ways.

First, the argument that the socioeconomic reforms in Chongqing were untenable just because they reflect populist politics needs unpacking. In concrete terms, the pressing needs
for alleviating what was (and remains) a growing rich-poor divide in China’s largest municipality – which in itself is an outcome of the coastal- and urban-bias in earlier developmental strategies – would have been sufficient to merit state (pre-emptive and ameliorative) action (cf. section 8.2, Chapter 8). Interestingly, Wu Jinglian showed he has never forgotten class struggle with an observation that “socioeconomic contradictions [in China] have already reached a critical point, we cannot continue to blunder, a revolution would happen if we continue to blunder” (China Entrepreneur, 1 November 2013). Mao Yushi has similarly acknowledged that “the biggest drawback of markets is the creation of rich-poor inequality. Markets create this problem, hence it cannot be resolved by markets. Its correction has to come from extra-market forces.” (Interview with Shenzhen Special Zone Daily, 4 June 2012). Such is the serious nature of social problems in contemporary China, Mao Yushi went on to illustrate at book-length the colossal worries of the national populace since the 1978 ‘liberalization’ reforms (see Mao, 2013).

These observations raise an intriguing question for the conceptualization of “politically popular” socioeconomic reforms in Chongqing: if the need to ease social tensions is so pressing; if the people are already intensely worried by the reforms brought about by deepening market-like rule; and if market mechanisms cannot ease these tensions, would experimental programs to ameliorate these tensions constitute a ‘blunder’ on the part of the CPC? Or would these programs constitute attempts at producing more socially benign forms of regulation? China-based scholar Qiu Feng offers an interesting counterpoint on the interconnections between political populism (mincui zhuyi), “crony capitalism”, and the Chongqing reforms:

I very much dislike those who criticize [on the basis of] populism. We can see on Weibo [China’s version of Twitter] people from Chongqing’s political circles who claim China’s biggest danger in future is populism. I wrote a commentary on this: what lies before our eyes is crony capitalism (quangui zibenzhuyi), what we now need to consider is how to solve this problem. Populism is a reaction to crony capitalism, there is first crony capitalism before there is populism. Now many intellectuals follow the wave to oppose populism, they equate the ‘Chongqing model’ to populism. I feel there should not be such a definition, resolving problems associated with people’s livelihoods are separate from populism.

The second problematic assumption is associated with the approach to resolve problems...
associated with people’s livelihoods, namely the involvement of credit markets in the redistributive process in Chongqing. At one level, this concern about potential budgetary delinquency is warranted: many local governments in China have indeed encountered difficulties repaying debt to (nominally-)private creditors. It could indeed be argued that lax regulation and monitoring of lending practices to government-linked institutions is an ingredient that feeds crony capitalism. This situation is well summed up by Larry Lang, a prominent Hong Kong-based analyst of Chinese economic development:

Honesty speaking, I am really worried about the local governmental debts in China. In 2009, local governments could still borrow from new sources to repay old creditors; by the end of 2012, what they did was blatantly request extensions of repayment deadlines. And does everyone know, between 2012 and 2014 about 35% of the financial loans will mature? I do not dare to imagine what measures our local governments and banking system will adopt to address wave after wave of maturing debts. (Lang, 19 December 2013: n.p.)

It should be clear, however, that the cause for worry is not about whether state agencies should borrow from credit markets – it is about the ability to repay. In this regard, Mao Yushi’s point that the debt-independent ability to create wealth (presumably a task exclusive to private firms) should undergird fiscal redistribution becomes a paradoxical assumption: in a capitalistic system, wealth creation is driven by debt. As Chapter 6 has shown, state rescaling and policy-experimentation in Guangdong was also strongly contingent on debt-financing (and this was never raised as an issue by influential commentators like Mao Yushi and Wu Jinglian). Mao Yushi ostensibly assumes that only private firms – rather than state-owned enterprises – should undertake debt because of their presupposed “efficiency” at wealth creation, while the redistributive process (which, in China, includes financing state-owned enterprises) should not imbricate wealth creation processes (which theoretically means any activity that qualifies for debt-financing). The public scholar Qiu Feng offers a different interpretation on the debt-financing issue:

Of course, many people criticize these explorations in Chongqing, they claim that the Chongqing government has undertaken a lot of debt from banks, that its finances is already bankrupt. To be honest, this kind of argument is strange because almost all local governments are shouldering heavy debts, most local governments debt-finance their ‘projects for face-creation’ (mianzi gongcheng) or ‘projects for political results’ (zhengji gongcheng). To just criticize Chongqing based on this point seems unreasonable. What can be investigated is how much has been done [in Chongqing] to improve people’s lives. (Part of academic discussion at the Unirule Institute of
To gain a stronger understanding of the experimental reforms unfolding in Chongqing, Qiu Feng calls attention to the objectives of redistributive policies. The redistributive process, for Qiu, cannot be assumed to be negative ab initio; it is important to evaluate whether redistributive policies can enhance socioeconomic development. This chapter concurs with Qiu’s contention. As section 9.2 has shown, the housing project is entwined with the hukou conversion and industrialization drives. These drives are in turn outcomes of a path-changing developmental agenda developed by the former Chongqing Party Secretary Wang Yang and Chinese President Hu Jintao. Against this broader contextual backdrop, the redistributive reforms were at once necessary and contingent: they were necessary because the Chinese central government mandated the time has arrived to tackle fundamental contradictions associated with the ‘dual structure’ instituted in 1958; they were contingent because there was no guarantee that the experimental reforms would succeed and, in turn, be expanded across the country.

To facilitate a more incisive evaluation, it would be useful to consider in greater detail the logics undergirding the provision of public rental housing. If the Chongqing government had chosen not to “invest” – the term Wu Jinglian uses to describe fiscal redistribution – in the expansion of housing stock (rental or ownership-based), the investment risk would first be borne by real estate corporations, before being ultimately transposed onto individual buyers through a quasi-cornering process (current low-income urban residents and new migrants need somewhere to stay after all, which translates into definite demand for housing). Yet the Chongqing policymakers determined the lower income strata of Chongqing’s urban migrants would find privately-supplied apartments unaffordable (see section 9.1). This meant the lower income strata could not generate effective demand for privately-supplied housing unless high-risk credit provisions were given.
Viewed this way, the Chongqing government’s involvement as a housing stock supplier is a means to reduce social risks of housing debt defaults by lower income earners à la the US sub-prime mortgage crisis of 2007-2008. Specifically, it illuminates the negative relationship between excessive housing debt and the suppression of effective consumer demand. As it has become clear in many cities within China and even across East Asia, when housing supply is controlled by private property groups (usually an oligopoly), many individuals would take up – and be locked-in by – housing debts that extend very long terms (30 to 35-year repayment periods are commonplace). Whether individuals – especially new rural migrants – in Chongqing are able to satisfy their loan obligations over two to three decades is moot per se (the US national sub-prime housing market crash is a case-in-point); the more crucial question, rather, is the impact of long-term property debt servicing on economic expansion: when individuals have to devote significant portions of their disposable income to repay housing loans, their ability to purchase consumer goods naturally decreases. Given the inverse correlation between high housing debt and effective consumer demand, the public rental housing project in Chongqing offers a potential economic “return”, to use Wu’s parlance. It frees up disposable income, which raises the propensity for direct consumption and/or an increase in savings (and which then fuels new rounds of investments). This thus fulfills a key developmental objective – the expansion of domestic demand – of China’s 12th 5-Year Plan (2011-2015).

To address the critiques of these “investments” directly, it would be more pertinent to assess the feasibility of the repayment channels. There were also differences on this point. Writing for the Financial Times (9 March 2012, Chinese edition; author’s translation), private investor Liu Haiying offers this interpretation of Chongqing’s recent budgetary position:

From an analysis of [Chongqing’s] fiscal revenues… the GDP for 2011 was 1 trillion, and fiscal revenue (including extra-budgetary collection) was 290.8 billion… this constitutes 29% of GDP. That fiscal revenue takes up such a high proportion represents a strong extraction of social resources by the government. Yet such a strong extraction cannot satisfy its expenditure demands: in 2011 Chongqing’s fiscal expenditures hit 396.1 billion yuan, almost 40% of GDP; the national proportion was 23%. From this calculation, the nominal fiscal deficit is 105.3 billion yuan, 10.5% of GDP, far above the 3% international warning levels.
Speaking to South Korean media, Wu Jinglian went further by pronouncing the end of the ‘Chongqing model’ based on a lacerating interpretation of Chongqing’s budgetary and fixed capital investment statistics:

Chongqing’s GDP [for 2011] was around one trillion yuan, and fiscal revenue was around 150 billion yuan [sic]. Yet within the last year [2011], the fixed assets investments in Chongqing reached 750 billion yuan, benefiting from this, Chongqing’s economic growth rate also reached 15% [sic], how long can this situation be sustained? The ‘Chongqing model’ has failed and is finished. (Interview with Korea JoonGang Daily, 17 April 2012; author’s translation)

However, Liu and Wu’s presumptions and empirical calculations were called into question when assessed against the official accounts of the Chongqing budget and the planned repayment channels of the public rental housing financial package. To begin, the notion of an international deficit warning level applies only to national economies (and even so, the 3% limit is a relative rather than an absolute indicator). The causality of this cross-scalar relation was overlooked: Chongqing is administratively a subnational economy, which means it has a redistributive relation with the Chinese central government. The fiscal revenue figures for Chongqing would therefore need to account for the Chinese central government’s financial redistribution to Chongqing.

Both Liu and Wu’s figures did not include this financing component; in addition, Wu did not consider extra-budgetary revenue figures, a glaring omission considering the information is publicly available. Because no standard rule states that fixed asset investments need to be solely financed through the redistribution of taxpayers’ monies, the issue concerning state-driven projects that involve credit is whether the projected repayment channels are feasible (more on this shortly). As such, while fixed capital investments in Chongqing have indeed soared over the past five years (ref. Figure 9.1), whether they offer concrete financial returns – and in turn vindicate the state’s redistributive “investments” – is contingent on the ability of these investments to drive and benefit from the accompanying series of industrialization projects.

The inaccuracy of Liu and Wu’s interpretations is further underscored by new information on Chongqing’s budgetary health and debt-repayment channels (for detailed
summary see Table 8.2). According to comprehensive statistics provided by an anonymous spokesperson from the Chongqing Finance Bureau, the city’s fiscal standing is actually generating surpluses because of prudent spending and redistribution from the central government (Interview with www.cqnews.net, 24 March 2012; author’s translation). To be sure, statistics officially released by state agencies are not inherently more accurate or reliable (cf. Wang, 2010). What these figures offer is a benchmark from which assessments of subnational governments’ budgetary discipline could be made, and it is this benchmark that contradicts Wu and Liu’s assertions.

More detailed assessments of potential budget delinquency could be made after the Chongqing government took the extra step – a rare one in China’s context – of providing information on the funding and repayment streams for the rental housing construction (ref. Table 9.2). Chongqing mayor Huang Qifan explains that apart from bank loans and fiscal redistribution, it was able to save on spending on the land costs which, valued at 30 billion yuan, would be an incurred expense if the construction was left to private producers (Interview with www.news.com.cn, 8 March 2012; author’s translation) Huang’s explanation offers a counterpoint to Wu Jinglian’s interpretation that the housing project gives “little regard” to the origins and eventual “returns” of fiscal expenditures. Indeed, as Huang further emphasizes, the provision of public rental housing operates on the basis of market-like exchange and, by implication, does not contradict Deng Xiaoping’s commitment to produce a ‘socialist market economy’ (cf. the integration of market logics in state governance, as discussed in Chapter 8):

The rent to be collected is at least equivalent to the interest payments for bank loans. [...] But there are still management costs and the 80 billion yuan principal sum to repay, how can this be balanced? No problem, because a third of the tenants in rental housing may want to buy over the title of the flats after 3 or 5 years, when they do so, at a capital cost of around 3000 yuan per m², it is possible to repay 40 to 50 billion yuan with sales of more than 10 million m². In addition, 4 million m² of the 40 million m² will be sold for commercial use…[it] will generate 40 billion yuan, so this debt can be balanced out. (Ibid.)
Table 9.2 Emergent characteristics of Chongqing’s public rental housing provision

<table>
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<th>Proposed volume</th>
<th>Targeted residents and rental conditions</th>
<th>Financing &amp; repayment strategy</th>
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| • Original plan in announced February 2010 was to build 40 million m² over 10 years; but target is expected to be met as early as 2012 | Targeted residents:  
- Homeless families or families whose current living space is less than 13m² per person; and  
- Individuals who are employed within the Chongqing core urban area and other stipulated urban zones; and  
- Individuals with a monthly salary not above 2000 yuan; or a 2-person family unit with a combined income not above 3000 yuan; or a bigger-than-2 person family unit with an average income not above 1500 yuan  
- Rental rates established at around 60% of market prices (2010 levels)  
- Quota: 50% for peasant workers, 15% for new university graduates, and 35% for existing urban residents with housing difficulties  
- Key qualifier: Individuals who meet the above conditions do not need to hold Chongqing hukou status  
- Rental and ownership restrictions:  
  - Tenants are allowed to purchase their rental units from the state at just above cost-price after residing for 5 years  
  - Tenants opting not to buy can continue to rent so long as they meet the prevailing requirements  
  - Tenants who purchase the units cannot re-sell them on the open property markets; units can only be re-sold to the state; no secondary market allowed for public flats. | Operating costs:  
- Preliminary fiscal injection: 30 billion yuan  
- Opportunity cost: estimated 30 billion yuan in fiscal revenue, if the land used (based on 2010 land use planning and land valuation) is tendered out for leasing  
- Bank credit: first wave of loans injected by Huaxia Bank in September 2009; new loan commitments by Bank of Communications, ICBC and China Construction Bank followed; more than 10 billion yuan injected by 2012; interest rate estimated to be around 5%  
- Insurance firms, Housing Provident Funds, Social Protection Funds etc.; more than 40 billion yuan raised from these sources in 2011  
- On 23 April 2012, Chongqing Land Group (owned by the municipal government) obtained approval to issue 5 billion yuan in corporate bonds for affordable housing; the biggest amount approved in China at the time for affordable housing construction  
- Repayment channels:  
  - Rental income used to cover loan interest payments; rental rate (hence income) subject to (upward) adjustments, in relation to per capita GDP growth  
  - 5% of revenue collected from annual land leasing is committed to financing public rental housing construction  
  - An estimated 1/3 of tenants expected to purchase units; sales income will be used to cover principal repayment  
  - Of the area already completed or currently under construction (around 40 million m², based on March 2012 calculations), 1/10 will be rented and/or sold for commercial use at open market prices; all sales revenue will contribute towards debt repayment  
  - Key strategy: The financialization and repayment process is predicated on a structured cost-recovery model |
| • Construction on 13 million m² & 14.25 million m² (approximately 219200 units) began in 2010 & 2011, respectively |  |  |
| • Construction on 13.2 million m² (approximately 237400 units) projected for 2012 |  |  |

Sources: Chongqing Chengbao (9 June 2010); Chongqing Ribao (28 October 2010) Nanfang Zhoumo (26 August 2010); China Economy & Informatization (18 January 2012); www.news.cn (8 March 2012); Sina Dichan (9 April 2012); www.cqnews.net (26 April 2012); author’s notes from participation in seminars with planners and policy consultants in Chongqing. Data compiled and translated by author.

Of particular significance in the repayment plan is the function of land as at once a saleable commodity and a public good. As Chapter 8 has explained, the Chongqing
government was able to intervene strongly in the economy because market reforms were weaker relative to the coastal city-regions. In the process, it was able to reconsolidate its functions through making these institutions more market-like in their behavior while, at the same time, keeping intact its ability to determine the exchange value of land. In the instance of housing provision for the lower income populace, land valued at 30 billion yuan was stripped of its price (i.e. exchange value = 0 yuan). This redistributive process illustrates how the CPC remains ‘locked in’ to the path of public landownership instituted by Mao in 1958 (ref. Chapter 4 and Table 5.1, Chapter 5). Its ability to attach a monetary value to land exists because the CPC never relinquished its control of land. This phenomenon is more pronounced in regions like Chongqing that were less exposed to the industrializing reforms of the 1980s. As Liu Guoguang, the former Deputy Head of the Chinese Academy of Social Sciences, puts it, the Chongqing government was well-placed to take on this challenge because it retained a crucial precondition of redistribution – public ownership:

The fundamental point of departure of redistribution theory in Marxian political economy [i.e. the official basis of the Chinese economy] is the determination of the redistributive institution by the ownership institution, that ownership relations decide redistributive relations. Yet people often neglect this point. When analyzing the causes of our country’s widening rich-poor divide, many origins were proposed, such as the expansion of urban-rural disparity, the sharpening of uneven development between regions, monopolies of specific sectors, corruption, insufficient supply of public goods, slow responses to redistributive needs, etc. All these reasons could be valid and need to be addressed one by one. But these are not the most important reason. (Interview with Chongqing Ribao, 5 August 2011; author’s translation)

Contrary to Mao Yushi and Wu Jinglian, Liu argued that only when the state owns the means of production that effective redistribution could occur:

To address the problem of rich-poor disparity from the realm of redistribution – and redistribution alone – is far from sufficient, it cannot fundamentally reverse the trend of worsening disparity. The problem should be tackled directly from the structure of ownership, it must be dealt with directly from the level of relations of production, from the most basic economic institution; the problem should be solved through fortifying the public ownership institution, only through this could growing rich-poor disparity be precluded and ‘common affluence’ be attained. (Interview with Chongqing Ribao, 5 August 2011; author’s translation)

Liu’s logic was arguably expressed through the Chongqing reforms. Through strong public ownership, the Chongqing government was able to prioritize use value over exchange value in cases it deems to be more socially effective. As such, the Chongqing government was able to rely exclusively on SOEs in the construction of the public rental flats. Whether this prioritization
is less economically “efficient” is a non-issue because, to follow Mao Yushi’s aforementioned acknowledgement, market mechanisms inherently generate and are unable to overcome social disparities (cf. *Shenzhen Special Zone Daily*, 4 June 2012).

The interesting characteristic of the Chongqing reforms is the incorporation of market logics in the state’s calculations. This is clearly a legacy of the reconsolidation of Chongqing SOEs in the early 2000s (ref. Chapter 8). Plans were implemented to enable the government to demonstrate its ability to recover the costs “invested” in the social facilities, which in turn allowed it to avoid charges of financially irresponsibility. That Huang acknowledged the importance of bank credit as a financing channel is unsurprising; as Qiu Feng has emphasized, debt-financing is commonly used by many local governments across China. Of theoretical significance is Huang’s detailed explanation of how the “debt can be balanced out”. Specifically, the entwinement of the “balancing” process with market mechanisms is telling. As Table 9.2 shows, the rental rates are not fully subsidized by the state; rather the costs can only be recovered because part of the available real estate would be rented or sold at market-determined prices. The redistributive process of converting land into a public good is thereby contingent on the state’s ability to perpetuate its characteristic as a commodity. If anything, this illustrates a tension that is intrinsic to the CPC’s official pursuit of a “socialist market economy”.

Through the analysis of the funding rationale, it is clear that the state-driven attempt to alter the spatial logic of socioeconomic regulation in Chongqing is not about the ’state vs. the market’ or ‘politics vs. economics’. It is about the interaction between the state apparatus and market mechanisms; it is about politics determining economics through spatial reconfiguration in order to enhance social development (cf. section 8.2, Chapter 8). As such, the seemingly high-cost investments to effect urban-rural integration in Chongqing cannot be taken as antithetical to deepening marketization – or, more precisely, to deepening state-led marketization. The very raison d’être of urban-rural integration is to facilitate the socio-spatial absorption of peasant migrant workers that would in turn support the incoming industries (a substantial number of which are state-invested). Because market mechanisms have become
the preferred tools to regulate social life, what will concretely define ‘development’ in China will inevitably involve market exchange. This aspect is arguably the primary path-changing characteristic of policy experimentation in and state rescaling through Chongqing. In the context of this dissertation, the crucial questions generated by this characteristic are whether 1) the integrated developmental approach in Chongqing contradicts the rationale of state rescaling and policy experimentation in Guangdong; and 2) whether the seemingly variegated expressions of state rescaling across China are an intended effect.

9.4 Conclusion

One test for whether reform is genuine is if people will emerge screaming about the pain they feel as a result. If no one feels any pain, that is not reform. – Hu Shuli, Editor-in-Chief of Caixin Media, interview with Asahi Shimbun, 18 April 2013)

Much has been written on the ‘Chongqing model’ or ‘Chongqing experience’ of development since the Bo Xilai government launched a broad series of socioeconomic reforms in late 2007. Yet there remains an empirical blur when it comes to illustrating the causes and implications of these reforms. The research presented in this two-chapter segment is an attempt to add clarity to this growing literature. Through establishing the connections between the post-2007 experimental reforms, which are ongoing, and their conditions of possibility, some of which could be traced back to the Mao-era, these two chapters have shown that the ‘scaling up’ of the reforms was never an expression of linear historical evolution. In contrast to the export- and market-oriented developmental approaches in Guangdong, the site of Deng’s first-wave experimental reforms, the Chongqing government had been strengthening its interventionist hand since the early 2000s (ref. Chapter 8, section 8.2). Responding to and building on this strong state capacity, the former Chongqing Party Secretary Wang Yang then worked closely with the central government to launch experimental policies to reform the ‘dual structure’. However, these phenomena did not generate accusations that Chongqing represented a (re)turn to the Cultural Revolution – it took the global financial crisis and the subsequent push to give Liangjiang New Area a national designation that the reforms in Chongqing took on a
whole new level of prominence.

This chapter has analyzed how two interrelated socioeconomic reforms to actualize urban-rural integration were justified as integral to the industrialization drive in Chongqing. These reforms are, namely, the large-scale public rental housing provision and the equally large-scale conversion of peasant migrants’ hukous. On their own, these reforms would arguably not have attracted much attention: public rental housing provision was not a novelty then, and there was talk of overturning the urban-rural ‘dual structure’ for a long time (see Chan and Buckingham, 2008). It was the justification of these reforms as fundamental to industrialization that generated the strong debates. As the US subprime mortgage crisis expanded into a global financial crisis in 2008, the Chongqing government went on a discursive offensive: it began to argue that it is possible to perpetuate and proliferate industrialization (spearheaded by the Liangjiang New Area) without exacerbating the socio-spatial inequality that already exists at the national scale. This integrated approach underscores a fundamental difference between the Chongqing reforms and earlier state spatial strategies of earlier regimes – it very clearly showed these earlier approaches to have decidedly overlooked issues pertaining to “fairness”, “justice” and “citizen rights” (ref. Chongqing mayor Huang Qifan’s comment in section 9.2).

It is thereby more accurate to construe the reforms in Chongqing as at once an outcome of and a response to the economistic developmental approach that characterized the post-Mao era. It is almost as if the central government pulled open a space, through which these constraints could float to the surface. When the Special Economic Zones were instituted in 1980, the necessity to ease socio-spatial inequality did not exist. The conditions that drove SEZ-formation, as Chapter 5 has shown, were primarily generated by Mao Zedong’s decision to engage the global system of capitalism (set in motion by the Nixon visit to Beijing in 1972). Ironically, however, Deng kept Mao’s ‘dual structure’ institution and established it as the spine of subsequent spatial strategies. In turn, the reforms in Chongqing became a necessity because the ‘ladder step’ strategy instituted by Deng and his successors generated colossal
inter-provincial disparities and exposed the social limits of the ‘dual structure’ under conditions of nationwide population mobility. This relational vantage point brings into sharper focus why the ‘Chongqing experience’ generated nationwide debate: the reforms directly question whether the post-1949 approach to integrate Chinese economy and society on the basis of institutionalized uneven development was fundamentally flawed from its very beginning.

Interestingly, as discussed in Chapter 8, the strategies to experiment with new logics of socioeconomic regulation in the first two decades of the post-Mao era left open room for governments in less developed regions like Chongqing to reconsolidate their economic strength so as to drive regional development. Of particular significance is the incorporation of market mechanisms to reform of the urban-rural ‘dual structure’. While the Chongqing government involved only SOEs in the construction of public rental flats, these SOEs (e.g. Chongqing Land Group) were able to raise funds through credit and equity markets located in different locations. By unilaterally establishing the exchange-value of rental apartments, the Chongqing government could undercut what private producers are otherwise expected to charge. Property speculation was further precluded through the prohibition of a secondary resale market for rental flats (cf. Table 9.2 in section 9.3). Yet the cost-recovery model indicates the social reforms do not constitute a direct subsidy; on the contrary, the act was justified on the basis that it would allay investors’ worries about finding accommodation for workers (ref. section 9.2). This further accentuates the tight state-market entwinement in Chongqing: state ownership of a sizeable segment of the housing market (i.e. that consisting of low-income earners) was paradoxically financed by (nominally-)private banks and private economic investors, in the name of facilitating expanded capital accumulation. Unprecedented in China, this integrated developmental approach arguably placed other provincial and municipal governments under pressure: it underscored what the CPC did not do in earlier rounds of industrialization, that is offer social benefits to the growing number of migrant workers in industrializing city-regions.
The decision to launch the ‘314’ agenda in a geographically-targeted location (i.e. Chongqing) indicates how reforming seemingly intractable institutions of the Mao era cannot be easily implemented nationwide. As the varied responses to the reformist policies indicate, this agenda simultaneously pushes against and is hemmed in by the broader state spatiality in which it is located. The ‘hemming in’ process is especially pronounced when compared to reforms occurring simultaneously in Guangdong (ref. Chapter 6 and 7): the very same person – Wang Yang – who sought to reform the ‘dual structure’ used precisely this structure to effect the ‘double relocation’ of industries and labor. This ironic phenomenon reveals another characteristic of the Chinese socioeconomic developmental approach: institutionalized spatial unevenness has become of constitutive value for the regulation of Chinese economy and society, so much so that generating a new regulatory path is fraught with difficulties.

While this path-dependency generated strong opposition to the quest for urban-rural integration in Chongqing, the very emergence of opposition strongly suggests vested interest groups have come to dominate economic development in China. True reforms, says the Caixin editor Hu Shili, trigger pain and screams. The ‘screams’ in response to the Chongqing reforms illustrate how select groups have benefited from national socioeconomic policies instituted as far back as 1958. The reason why intense opposition emerged almost right from the beginning of the reforms in Chongqing is thereby symptomatic of a fear that the CPC was genuinely prepared to remove the “primary obstacle” to urban-rural integration. Yet the emergence of this fear reflects the spatial potential internal to the pursuit of spatial egalitarianism in Chongqing. Its existence suggests that fresh developmental undercurrents are forming; that the future of Chinese economy and society could have a new spatial basis.

In this respect, the socioeconomic reforms in Chongqing presented in this two-chapter segment contradict conventional portrayals of ‘Maoist’ resurgence in the municipality. Contrary to Mao’s favored dialectical approach of launching an ‘affirmative’ event through the ‘negation’ of another separate event, the Chongqing government had effectively shown that, with effective redistribution, ‘affirmation’ (economic growth through large-scale industrialization) need not be
based on ‘negation’ (the ‘dual structure’ of uneven development). If anything, the socioeconomic reforms instituted in Chongqing are in part a form of anti-Maoism cloaked in the spirited melodies of the municipal government’s favorite ‘Red Songs’. What makes it distinct as a ‘model’ – and which also contrasts strongly with the ‘double relocation’ and financial policy experiments in the Greater Pearl River Delta – is its objective to achieve simultaneous economic growth and surplus redistribution (ref. section 9.1). It is for this reason that the Chongqing experiments stand distinct from the rest of the country.

This increasing importance of spatial justice on the marketization agenda is similar, interestingly, to the CPC’s developmental approach prior to the 1958 ‘socialist high tide’. Between 1950 and 1952, the CPC centralized and facilitated the egalitarian redistribution of a ‘fictitious commodity’ – land – for poor peasants across the newly established nation-state. Through the Land Reform Act known colloquially to have ‘altered the heavens and changed the earth’ (gaitian huandi), the entire populace experienced common affluence for the first time in the history of ‘new China’ (ref. discussion in section 4.2, Chapter 4; for overview of the Act see Table 5.1, Chapter 5). Integrating the national economy on this egalitarian basis, the land reforms arguably constituted the first socially-progressive event launched by the CPC. As the contemporary Xi Jinping leadership contemplates unleashing a new wave of economic growth through nationwide urbanization, the experimental quest for spatial egalitarianism in Chongqing suggests that, if the proposed urbanization process unfolds on the basis of social equity, Mao’s 1956 vision of ‘the newest and most beautiful painting’ could yet (finally) be in the making.

Notes

1 At the onset of reforms in 2010, prices of market-supplied housing in Chongqing was around 6000 yuan (~US$950) per square meter, almost 6 times lower than the 35000 yuan average in Beijing. Because the Chongqing government still retains strong control of land resources, it was in a driving position to determine housing supply by intervening in the rental housing market. Whether it could still do so after leasing out its land supplies to private developers remains to be seen.

2 This figure does not apply to shareholdings, which could involve SOEs, collectives and joint-ventures. If these figures are included, the overall proportion would reach around 60% (Chongqing Bureau of Statistics, 2013).
10.1 Introduction

This dissertation is a study of how spatial logics of socioeconomic regulation in the Mao era interacted with new policies introduced in post-Mao China. It seeks to constructively complicate the claim that the Chinese “transition” can be explained as the eclipse of one national “system” (or paradigm) by another; as a unilinear movement from centralized state-socialism to a decentralized market regime. Amalgamating and building on a series of concepts, the dissertation sought to inject a geographical explanation of what has been widely heralded as an economic growth “miracle” (ref. Chapter 1). The analysis proceeded on the premise that the geographies of Chinese state rescaling constitute a lens through which to evaluate socioeconomic change in China. The primary research approach was first to ascertain the rationale of designating specific locations into “nationally strategic new areas”. It then situated the emergence of these logics through a thorough analysis of major policies that altered spatial regulatory logics since the Mao era (ref. Figure 1.2, Chapter 1).

Presented in three parts, the dissertation illustrated how economic development in China is inextricably intertwined with the reconfiguration of regulatory geographies to enhance Chinese state formation. Emphasis was given to the interaction between path-dependency and path-generation. Two major waves of changes transformed socioeconomic and political life from what it was like in the pre-1949 “old society” (cf. Table 1.3, Chapter 1). The first at the national scale consisted of three policies that drastically reconfigured state space in the early 1950s (Chapter 4). The second was at ‘meso’ levels (the rural hinterland and selected Special Economic Zones) in the 1980s (Chapter 5). The first wave was oriented towards and modeled after the Soviet political economy, the second was oriented towards (but not necessarily modeled on) the (neoliberalizing) global economy. Because the outcomes of the first wave could not align with the global neoliberal ideology, the most recent round of policy experimentation, expressed through the expansion of “nationally strategic new areas”,

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constitutes a simultaneous attempt both to resolve the contradictions of second wave reforms and to repurpose the logics of socioeconomic regulation from the Mao-era (Chapters 6 to 9). It is therefore more appropriate to think of these rounds of regulation, each with their own geographies, in terms of a complex palimpsest rather than a simple process of succession.

Specifically, the comparison of the characteristic spatial form of the Mao-era and that of the post-Mao “transition” problematizes binary conceptualizations of politico-economic evolution in post-1949 China (Chapter 2). The dissertation argues that the centralization-decentralization and spatial egalitarianism-uneven development binaries do not explain 1) entrenched uneven development in the Mao era (albeit at much lower income and output levels); 2) the reconfiguration of central state power since the mid-1990s; and 3) qualitative changes in central-local relations. The focus on spatial shifts (e.g. proliferation of experimental economic geographies in the post-Mao era as an outcome of state rescaling) and spatial continuities (e.g. the urban-rural 'dual structure' and the coastal concentration of industries) offers a nuanced picture of the Chinese economic ‘miracle’ (cf. Chapter 1): new rounds of regulation may have produced new changes, but traces of earlier forms remain.

Drawing from a range of concepts to explain the tendencies and rationale of state spatial (re)reconfigurations in China, the dissertation arrives at five interrelated conclusions:

- **The main difference between the policy experimentation in the Pearl River Delta (Hengqin and Qianhai New Areas) and Chongqing (Liangjiang New Area) is how they generate new regulatory paths in the name of the ‘national interest’.** The ongoing policy experimentation in Hengqin and Qianhai are intended to enhance the internationalization of the yuan, which in itself was initiated in response to the Chinese state’s over-exposure to the dollar (as reflected in its massive and still growing dollar reserves). The experiments in Chongqing illustrated two other issues pertaining to national cohesion: the inherently discriminatory hukou institution and the coastal-oriented industrialization approach. It would therefore be more accurate to
view the different ‘models’ or approaches in each case as extensions of regulatory issues confronted by the Chinese central government. While these models/approaches may appear to be competing with one another, they could not have been fully anticipated. It is thereby more plausible to theorize these variegated regulatory geographies as simultaneous outcomes of inherited policies and targeted responses to the problems generated by these strategies.

- The policy experimentation in the two contemporary field sites is in itself filled with uncertainties and inconsistencies, which underscores the lack of a central planning agenda. In the case of Hengqin and Qianhai New Areas, the financial reforms are launched vis-à-vis actually-existing channels of unregulated cross-border capital flows (Chapter 7). Without reducing these channels, offshore RMB could only flow to locations designated by the CPC or, as is already happening now, move informally into and out of the Chinese economy through quasi-clandestine means. How the reforms in Hengqin and Qianhai contribute to the ‘liberalization’ of the entire Chinese financial system thus remains very unclear. In Liangjiang New Area (and Chongqing more broadly), the prominent roles of fiscal redistribution and local state financing generated strong resistance by prominent actors. While not explicitly stated, this resistance might have contributed to the lack of enthusiasm for similar reforms in other provinces, which in turn highlights how developmental approaches across China are entwined with the regulatory path established by the 1958 urban-rural “dual structure”. The defining characteristic of this path is the institutionalization of the population into ‘agricultural’ and ‘non-agricultural’ classes and, on this basis, the facilitation of urban-based industrial growth through the extraction of rural resources (the most important of which is rural labor power). While the current Xi Jinping administration remains committed to nationwide equitable urbanization, the repeated
delay of the promised blueprint strongly suggests the ‘socialistic’ approach in Chongqing is not applicable across Chinese state space.

- Designed to fit the preexisting socioeconomic conditions of Guangdong and Chongqing, the experimental reforms are inherently contradictory: it would be unfeasible to have these experiments extended ‘as is’ to other locations with different socioeconomic developmental pathways. If both the Guangdong and Chongqing approach to socioeconomic restructuring were to be extended nationwide, the narrow focus on industrial restructuring (and, by extension, the perpetuation of GDP growth) in Guangdong would undermine the socialistic approach in Chongqing. In Guangdong, as Chapter 7 shows, the Wang Yang administration chose to drastically amend the industrial foundation of the Pearl River Delta while it set up the designation of Hengqin and Qianhai into “nationally strategic” areas. The aim of state rescaling was predominantly economistic: it was to ensure that Guangdong retain its leading economic position in China. In Chongqing, however, the Bo Xilai administration had to build on the equitable urbanization pathway established by the former Wang Yang administration while it sought to attract transnational circulatory capital. The outcome is an integrated developmental approach that is called ‘socialistic’. State rescaling and policy experimentation in China thereby generate divergent developmental pathways, such that no single model seems likely to predominate at the national scale.

- Contrary to the Mao era, there is much greater spontaneity and spatial selectivity in the ways initiatives of national significance are proposed, evaluated and ultimately implemented. While various forms of decentralized governance characterized both eras, the regulatory rationale in the Mao-era was to keep each province (and the respective administrative scales within each province) separate and directly under the control of the central government (ref. Chapters 2 and 4). While this regulatory
logic still impacts inter-provincial relations in present-day China, the provincial governments now have greater agency in putting forth developmental agendas in the name of the ‘national interest’. This in turn engenders strong competition between provinces for the coveted power to ‘move first, experiment first’. Crucially, this competition increases at once the power of the provincial and central governments. For the provincial government, each administrative locality had to convince the Party Secretary and Governor of his/her jurisdiction’s ability to be the next “nationally strategic new area”; this adds further dynamism to the relations between the provincial and the county/municipal governments. The same logic applies to central-provincial relations. That decentralized governance has taken on this effect of enhancing the legitimacy and power of the central government against a globally interconnected context is an important characteristic that the ‘centralization-decentralization’ debate failed to illustrate (cf. Chapter 2). And this leads to the final concluding point.

- **State rescaling and geographically-targeted policy experimentation have become necessary strategies for the Chinese central government to preserve domestic socioeconomic stability vis-à-vis an increasingly volatile global context.** Read in relation to Chapter 5, the ‘double relocation program in the Pearl River Delta (PRD) is a product of the export-oriented state spatial strategy of the early 1980s (ref. Chapter 6). With the industrial structure strongly entwined with global production networks, the attempt at industrial upgrading had to ensure any disruption to this entwinement would not strongly undermine the PRD’s articulation in the global economy. The goal of designating Hengqin and Qianhai as national centers of financial reforms effectively allows the CPC to reproduce, if not deepen, global economic integration (Chapter 7). In Chongqing, the repurposing of state participation in the economy vis-à-vis (the lack of) private capitalist forces allowed the
CPC to create new manufacturing bases that in turn ensured the Chinese macro-
economy was not strongly affected by industrial upgrading along the coastal
seaboard (Chapter 8). With local governments across the country submitting
proposals that potentially address national-level regulatory issues, the CPC could
address different problems exposed by the global financial crisis, namely its over-
exposure to the US dollar and the growing cost pressures on manufacturing along
the coastal city-regions. The open question is whether “nationally strategic”
experimental policies need eventually to be extended to the national scale, as
Heilmann and Perry (2011) have it, or whether the geographical specificity of policy
experimentation is precisely what is required for adaptive governance.

The following two parts to this chapter will reflect critically on these conclusions. Section 10.2
revisits and re-states the main arguments of the dissertation. It shows how these arguments cut
across the chapters, and discusses how they stem from the research design. It then presents
the conceptual contributions and limitations of the research. Attention is drawn not just to the
conceptual contributions of the research, but also its limitations. In answering some questions,
then, the dissertation also raises new questions at the same time. These questions will be
explored in the concluding overview in section 10.3, with a view to developing them in future
research projects.

10.2 Overview of arguments and conceptual contributions

As discussed in Chapter 2, this dissertation can be read as a response to two interrelated
bodies of research. Specifically, it complicates oppositional portrayals of the Mao and post-Mao
eras as characterized by 1) centralization (a Mao era regulatory approach) and decentralization
(a post-Mao regulatory feature) and 2) spatial egalitarianism (a Mao era developmental
objective) and acute regional disparities (a post-Mao regulatory effect). The Mao-era was
characterized by central economic planning, to be sure, but much leeway was given to the local
levels to implement the policies. This phenomenon in turn spawned what was a ‘cellular’ economic-geographical structure in which each ‘cell’ reflected a particular, bi-lateral relationship with the central government and not so much lateral relations with other regions (Donnithorne, 1972). Furthermore, spatial egalitarianism was never a policy directive after the ‘socialist high tide’ of 1958; as Chapters 4 and 5 shows, socioeconomic regulation was predicated on instituted uneven development, as exemplified by the ‘urban-rural’ dual structure and the ‘price scissors’ mode of capital accumulation. What has changed in the post-Mao era, then, was not a move towards more acute uneven development but a reproduction of uneven development last seen in the Mao era through state rescaling and policy experimentation (ref. Chapter 5). Through this analysis, it was made clear that simple transition models do not capture the dynamic connections between the Mao and post-Mao eras.

As mentioned previously in Chapter 1, the primary conceptual question for understanding state rescaling in China is whether there were similarities in the triggers of rescaling (and hence the growing focus on devoting developmental resources to city-regions). Through the analyses in Chapters 4 and 5, the dissertation demonstrates the conditions and tensions that generated qualitatively new forms of decentralized governance in the 1980s. This geographical-historical analysis indicates the nationally-oriented and geopolitically-insular regulatory logics of the Mao era generated crisis tendencies that impelled the new Deng Xiaoping administration to launch a geographically-targeted policy experimentation through the 1980s. The primary contrast between the Chinese context and the western European cases is that crises in China were not solely a reaction of the “first wave of urban locational policy”; in China, the growing prominence of locally-driven developmental initiatives since the early 1980s was in part a reaction to the excessive emphasis on communal production in the vast rural hinterland and in part the proactive use of decentralization for experimenting with market reforms. Indeed, as was discussed in Chapter 5, the experimentation with the Household Responsibility System in the rural hinterland marked the fulfillment of a key restructuring goal devised senior Chinese policymakers of the 1960s (e.g. Liu Shaoqi, Li Fuchun and Deng Zihui),
that is, to institute a regime of production across the rural communes that allows individual households some autonomy in production.

Despite these reformist policies, the very logics of socioeconomic regulation that generated the 'miraculous' economic growth of post-Mao China contain residues of Mao-era logics. As Chapter 4 has shown, experimental approaches to state formation in contemporary China are not unique to the post-Mao era. Prior to securing power in 1949, the integration of disparate economic geographies (e.g. Manchuria, Tibet, Inner Mongolia and smaller fiefdoms) into a national entity was predicated on the localized mobilization of peasants to overthrow exploitative landlords. The CPC’s current ability to renegotiate regulatory relations is thus a Mao-era legacy. Chapter 4 demonstrates this by showing how the peasant revolution was a politically orchestrated strategy to expand support for the CPC takeover of power. The economic carrot for the peasants was egalitarian land redistribution and eventual household-based production. Once power was attained, the Mao administration fulfilled its promise through the Land Reform Act (ref. Table 5.1, Chapter 5). But this was short-lived: on the premise of ‘national economic construction’ (guojia jingji jianshe), the Mao administration launched and jettisoned several programs – land and other means of production were nationalized in 1958; the transfer of regulatory power to six administrative regions in 1949 was abandoned in 1954; and the Great Leap Forward industrialization program, launched in 1958, was stopped in 1960. What ensued was the Third Front construction campaign, followed by the Cultural Revolution; means of production were moved around, only to exacerbate uneven economic-geographical development (Chapters 4 and 5).

While the individual campaigns generally did not last long, three major policies that enabled Mao’s state-building process – land nationalization, the People’s Communes and the hukou institution – endured at least two decades. Of the three, only the People’s Communes were disbanded in 1984 as greater freedom for individual production was granted (Chapter 5); the CPC continues to launch reforms on the basis of a nationalized land system and the urban-rural “dual structure”. Establishing the logics and impacts of these institutions was important for
two reasons. First, they offered an insight into what has been a less-discussed precondition of post-1978 reforms in China: the consolidation of political power through decentralized governance. Mao-era spatial logics of regulation – expressed through the People’s Communes, urban industrial work units and the ‘cellular’ relationship between these units (cf. Donnithorne, 1972) – allowed the Chinese central government to fortify its political control over the newly-formed state spatiality. And it was this control that in turn allowed successive governments, led by Deng Xiaoping and Jiang Zemin, to launch more spatially-targeted strategies for socioeconomic regulation (ref. Chapter 5).

Second, extending the respective legacies of these three policies to the present enabled a clearer theorization of the rationale of contemporary state rescaling (expressed in/through the demarcation of “nationally strategic new areas” for policy experimentation). While there were significant differences in how population and economic production was regulated between the Mao and post-Mao eras, the underlying regulatory objectives of the Deng regime arguably did not differ from Mao’s. Both sought to deepen the foundational status of the CPC as the government of China and both sought economic development. For Mao, the ‘economic construction’ of the 1950s morphed into an explicit attempt during the Great Leap Forward campaign to ‘chase the UK and catch up with the US economies’ (zhuiying ganmei) within 15 years. Deng’s approach was equally explicit: it would be necessary, he reasoned, to let some people get rich first as reforms increasingly gave more room to private enterprise (the getihu) and foreign capital inflows.

A key aspect of change is in the methods to achieve these objectives – Mao chose geo-economic isolation, even to the extent of shutting out Soviet influence during the 1960s; Deng and his successors sought to engage and ultimately integrate with the global system of capitalism. Both approaches generated contradictions: geo-economic isolation during the Mao era could not work as China was previously dependent on technological and expertise transfers from the Soviet Union, while the expansion of policy experimentation and engagement with transnational capital during the post-Mao era generated acute uneven economic-geographical
development that mitigated against Deng’s 1988 vision of eventual spatial egalitarianism. What differed were the ways to deal with contradictions: for Mao, the aftermath of the Great Leap Forward could be superseded through mass social mobilization in the name of fulfilling ideological purity (during the Cultural Revolution; Deng sought to ease the contradictions through successive rounds of geographically-targeted experimentation to engage transnational capital while keeping in place key tenets of Mao-era institutions. The contemporary experimental reforms in the “nationally strategic new areas”, in itself a renewed change attempt, further illustrates the tensions between regulatory logics introduced in the Mao era and the demands of an increasingly open and globally interconnected economy.

Through the contemporary case studies, the dissertation argued that the Mao-era regulatory logics that defined CPC rule have become increasingly blurred – if not destabilized – by intensifying flows of capital, labor and commodities within and beyond Chinese state space. This instability was particularly pronounced in the immediate period following the global financial crisis in 2008. For Hu Jintao, the former Chinese president who intensified the extent of “nationally strategic” rescaling after 2008, this re-assessment became a pressing policy task. The challenge to stabilize the Chinese macro-economy was made tougher by the need to address the combined socioeconomic effects of the two preceding waves of spatial changes and increasingly volatile global economic conditions. The outcome was further fragmentation of Chinese state spatiality into institutionally-distinct regulatory spaces known as “nationally strategic new areas”, with each area responding “strategically” to “national” challenges by integrating with the global economy in their own ways. After Hu passed the regulatory baton to Xi Jinping in 2013, this strategy remains in place.

This said, the Chinese central government never fully relinquished its control of the means and output of production after the Mao era (cf. Chapters 2 and 5). That the CPC requires sustained control over production arguably explains why tensions emerged from state rescaling in the Pearl River Delta and Chongqing. On one hand, established policies generated gains for interest groups. Unsurprisingly, resistance to change ensued vis-à-vis the instituted
relocation of unwanted industries out of the Pearl River Delta (Chapter 6) and the implementation of equitable urbanization in tandem with the launch of Liangjiang New Area in Chongqing (Chapter 9). These tensions illustrate a key characteristic of state rescaling in China: policymakers at lower administrative levels are given flexibility to propose and implement experimental policies of potential significance to the ‘national interest’ – a significant change since the ‘cellular’ mode of control during the Mao-era – through expanding the pool of stakeholders, yet, in pushing through these new forms of adaptive governance, these policymakers have to confront their own party’s reluctance to alter specific policies deemed fundamental to the preservation of CPC rule. This development in turn underscores the malleability of state spatiality in China: the contemporary globalizing context has brought a whole new array of regulatory challenges that are different from those confronted by the Mao administration as it seized control from the KMT in October 1949.

What has changed, then, is the experimental approach to confront these challenges. Contrary to the form of adaptive governance defined by Heilmann and Perry (2011), that is, the expansion of small-scale experiments to the national scale if the experiments are deemed to be beneficial across the country, the emergence of new regulatory forms in the ‘nationally strategic new areas’ is a form of meta-governance in which the new regime coordinates place-specific regulation rather than expect to extend this regulation nationwide. To be sure, the existing function of state rescaling allows the Chinese central government to respond flexibly to new developmental challenges/pressures by making use of geographically-specific conditions (e.g. the relatively high degree of economic integration between the Pearl River Delta and the two open economies of Macau and Hong Kong, the huge rural population within the expanded Chongqing municipality, etc.). This said, the scalar shifts in political power in and through the ‘new areas’ illustrate the contingent and capricious nature of the conditions that make possible flexible and sustained central control. Specifically, as mentioned in the introductory section in this chapter, the establishment of new regulatory scales produced place-specific and seemingly heterogeneous developmental pathways that render unclear the plausibility of extending
experimental policies nationwide. It might be more plausible, indeed, for experimental learning to be ‘lateral’, that is, it gets extended in a local-to-local manner.

In spite of this plausibility, however, the competitive impulses to copy and replicate experiments in one place could instead generate new crisis tendencies within the Chinese political economy rather than successfully reconstitute central state power. In itself, the state rescaling process exemplifies and is an outcome of two rolling contradictions. First, the production of Hengqin, Qianhai and Liangjiang New Areas into new state spaces of socioeconomic regulation underscores how national economic-geographical control is secured through destabilizing existing administrative boundaries. In other words, coherent national-scale governance is contingent on the generation of new subnational borders. That this re-bordering is not novel strongly suggests it has become a necessary precondition of China’s engagement with the global economy (cf. Ong, 2004, 2006). Second, as the case studies showed (Chapters 6 and 9), the production of new “nationally strategic” regulatory spaces does not imply a total break from inherited institutions. Rather, the rescaling outcome appears to repurpose these institutions – specifically, centralized financial and demographic control – in ways that would allow selected economic geographies across China to remain competitively articulated to the global economy. How – or whether – place-specific policy experimentation could preempt or contain crisis tendencies would thus be an important focal point in future research agendas on socioeconomic regulation in China.

A further conceptual point emerging from the preceding analysis is difficulty – if not impossibility – of considering whether the Chinese political economy could be successfully ‘reformed’ vis-à-vis a universal template (e.g. a prototypical ‘neoliberal state’ or a Marxian ‘socialistic’ end-state). Rather, it would be more fruitful to adopt a grounded approach that explores how the CPC reconfigures space in order to preserve its power within the context of a crisis-prone global economy. As shown in this dissertation, the spatially-targeted reconfiguration of national regulatory capacities allows it to remain sensitive to global economic instabilities. Through integrating Hengqin and Qianhai as functional extensions of the financial
industries in Hong Kong and Macau, central regulatory authorities appear to be experimenting with new spatial conduits to undergird the RMB internationalization program. This internationalization intention became clear after the global financial crisis deepened in 2008, with then Premier Wen Jiabao pledging to reduce the usage of an unstable US dollar and encourage wider cross-border trade settlements in the RMB. The Guangdong government grasped the opportunity to support the internationalization drive, in turn leading to the ‘upgrading’ of Hengqin, Qianhai and Nansha into “three strategic chess pieces” (ref. Chapter 6).

Yet the important role of the central government in co-determining, both politically and economically, the rescaling agenda underscores the argument introduced in Chapters 1 and 2, namely that economic liberalization in China ultimately necessitates the re-negotiation of regulatory relations between governments positioned at different levels of the spatial hierarchy. In the case of Hengqin and Qianhai, it also includes the extra-territorial governments of Hong Kong and Macau. The Chinese central government’s preference for geographically-targeted policy experimentation rather than total regulatory devolution (i.e. the permission of total liberalization nationwide) in turn suggests there is no intention on the part of the CPC to ‘liberalize’ the Chinese financial system in toto. Understanding domestic financial reforms is especially pertinent in the context of RMB internationalization. As the policy experimentation in Hengqin and Qianhai are still being rolled out, this topic will be further explored in a new research project.

The nationwide debates generated by the socioeconomic reforms in Chongqing – and, more crucially, the inability to expand these reforms nationwide – illustrate the difficulties of reforming the Mao-era hukou institution and the corresponding urban-rural “dual structure” (Chapter 9). From another angle, it could be argued that this difficulty emerged because many interest groups – SOEs, TNCs, village collectives located around coastal city-regions, etc. – have accumulated capital on the back of this institution in the post-Mao era (cf. discussion of ‘price scissors’ in Chapter 4 and collectives’ complaints in Chapter 5). As Chapter 7 shows, the
Guangdong government’s ability to launch swiftly the ‘double relocation’ program was due in part to the large concentration of migrant workers without local hukous. Because these migrants remain legally obliged to return to their places of hukou registration (hukou suozaidi), they were inherently in a subservient position vis-à-vis the Guangdong government. Dismantling this inherently discriminatory ‘dual structure’ nationwide would thus entail challenging interest groups that benefit directly from this structure in the process of capital accumulation and socioeconomic regulation.

Interestingly, as the “strategic coupling” process in Liangjiang New Area demonstrates, an integrated mode of development is achievable in reality without compromising GDP growth (Chapter 8). After all, the CPC is supposed to stand apart from parochial economic interests and implement policies for the social welfare of the masses. The problem, however, is that many CPC members are simultaneously embedded in these interest groups; political and business interests overlap in a manner unique to the Chinese macro regulatory system (cf. Dickson, 2008, Hsueh, 2011; ref. Chapter 5). Expanding the Chongqing reforms across the country would thereby mean unsettling the very ‘dual structure’ that enabled the CPC to deliver the economic ‘miracle’ of the past 30 years (see Figures 5.2 to 5.6, Chapter 5). The Hu administration tried, but could not resolve this precondition of economic growth in post-Mao China (Chapter 9); it could not overcome the fact that growth took place on the back of instituted uneven development. A new research line will be developed to examine whether Xi Jinping could do so with his proposed blueprint to intensify nationwide urbanization.

What this dissertation’s research on state rescaling and policy experimentation has shown, then, is that the ability to mobilize economic resources to ‘scale up’ city-regions has become a primary regulatory capacity of the Chinese party-state apparatus. This is an aspect that the centralization-decentralization debate did not adequately conceptualize and on which further research needs to be conducted (ref. Chapter 2). Political actors positioned at lower levels of the spatial hierarchy need the power of the central government to re-draw boundaries and raise funds (through the state-owned financial system), while the central government seeks
to benefit from favorable economic-geographical contexts to drive through national-scale institutional reforms. The interaction between these actors thus allows new institutions to be formed (in the rescaled zones) without generating shocks to the national regulatory system (ref. discussion in Chapter 1). This said, it is yet unclear how the 'success' of rescaling is to be defined or measured. Whether policy experimentation in specific socioeconomic contexts could – or should – be successfully extended across the country is a theoretically-significant empirical question: the answer(s) will indicate whether adaptive governance, defined as an expansion process where small experiments rise and spread outwards to the entire country, enables coherent regulation of the national political economy.

Taken together, the findings from the empirical case studies became the basis for a macro geographical-historical re-assessment of the spatial logics of socioeconomic regulation during the Mao era (cf. Figure 1.2, Chapter 1). Specifically they enabled new questions to be asked of Mao-era regulatory logics and paved the way for a reconstructed historical narrative that is engaged with contemporary debates of state rescaling in China. As Chapter 4 has shown, ‘China’ was a restless space before the CPC took power in 1949: territorial contestations between colonialists (Japanese and Soviet), local warlords and competing political parties (the dominant two being the Kuomintang and the CPC) were de jure. One of Mao Zedong’s distinct contributions to contemporary China was his ability to integrate – through his fluid notion of egalitarianism – what were otherwise disparate socio-economies. The reconstructed historical narrative in Chapters 4 and 5 thus proceeded to illustrate the manner in which Mao-era state spatial formation triggered state rescaling and policy experimentation in the post-Mao era. As these chapters contend, some institutional continuity persist vis-à-vis change attempts precisely because of the need to ensure the central state apparatus retains the power to determine state spatial stability and security in the final instance.

The geographical-historical sensitivity to the connections between the two eras also addressed the difficulty of periodizing politico-economic evolution in post-1949 China (ref.
section 2.3.1, Chapter 2). To be sure, it is an epistemological requirement to develop conceptual categories to aid understanding, and temporal categories are often adopted to frame discussions. It would be helpful, however, to eschew categorizing on the basis of linear historical evolution. As the experimental policies in Hengqin, Qianhai and Liangjiang reveal, overturning regulatory logics inherited from the Mao era across the national scale has never been complete, nor has it ever been unproblematic. Many of the characteristics of Maoism – e.g. ‘industrialization without urbanization’, the co-constitutive roles between state-owned enterprises (hereafter SOEs) and rural enterprises, common ownership of means of production, state-dominated financial system, etc. – extended at the very least into the early 1990s. At this point it is unclear if transformative change across the national scale is on the cards, or whether change is delimited to the selected geographies in order to retain core regulatory functions (i.e. the concentration of control over land, labor and money).

Two distinct exceptions could be discerned, however. The first, as shown in Chapter 5, is the nationwide implementation of rural household-based production in the first half of the 1980s (a project that, to be sure, was not novel to begin with: Mao vehemently objected repeated calls for its implementation in the 1950s and early 1960s). By producing a huge surplus of labor power in the rural hinterland, this institution literally impelled this surplus to seek wage labor, and opportunities for wage employment were largely located in coastal city-regions privileged for capital allocation. Meso-scale policy shifts in the rural hinterland thereby became a distinct condition of possibility for the coastal-oriented ‘industrialization through urbanization’ spatial strategy in the 1990s and 2000s (pace Huang, 2008; Coase and Wang, 2012; cf. Table 1.3). The second exception is the overhaul of the urban-rural “dual structure” in Chongqing (ref. Chapter 9). In spite of strong objections to these policies, the fact that the reform policies instituted by the Bo regime remain in place after his tenure in March 2012 establishes an important path-changing precedent. All this said, the retention of the nationalized land management system and hukou institution – key policies launched during the 1958 ‘socialist high tide’ – across the country offers a reminder that their underlying regulatory
logics are still of relevance to the reproduction of Chinese statehood.

10.3 New research directions

The narrative presented in this dissertation leads to new research questions that will be developed subsequently. Specifically, the dissertation invites further conversations with social scientists on the constitutive roles of state rescaling and policy experimentation in the socioeconomic ‘transition’ of contemporary China. At the macro level, it leads to a comparative study that examines how the Chinese state apparatus managed to build on its Maoist past without experiencing the massive socio-political instability that emerged in the former Soviet bloc (cf. Chapter 1). After 1989, the former Soviet Union and its satellite states in eastern Europe began economic ‘transitions’ similar to China's (i.e. greater freedom for private capital accumulation, new linkages with the global economy), but these transitions only reproduced the massive socio-political instability and/or economic stagnancy that precipitated the collapse of the communist bloc in the first place. Politico-economic ‘liberalization’ plunged the Russian economy into chaos in the 1990s; Yugoslavia descended into war and ultimately dissolved; while others like Romania, Bulgaria and Hungary continue to trail EU economies in economic performance. Vis-à-vis these developments, the relative political stability of ‘transition’ in China – the term ‘relative’ is used deliberately in light of the 1989 Tiananmen riots, arguably the most serious challenge to CPC rule since 1949 – can be attributed to the Chinese central government's adroit utilization of geographically-targeted policy experimentation. In so doing, the regulatory logics of Mao-era institutions would not be suddenly destabilized, while still giving the CPC room to experiment with more flexible modes of socioeconomic regulation. In this regard, political stability clearly ensued because decentralization became an aspect of centralized governance. How this phenomenon compares to developments in other ‘post-socialist’ economies is a research area that will be taken up in collaboration with social scientists researching shifting regulatory logics in other political economies ‘transitioning’ from their ‘socialist’ past.
In relation to research on national regulatory changes in Chinese studies, the dissertation calls attention to how the processes within the strategically selected experimental geographies open up new developmental pathways that are not necessarily charted, in advance, as part of some preconceived national plan. At one level, this ability to respond strategically through spatial reconfiguration arguably reproduces adaptive governance in the central government. This is especially when the geographically-variegated effects of previous developmental policies call for nuanced and context-specific approaches to experimental reforms. Yet it is important to emphasize that this renewed adaptive capacity is in part contingent on the repurposing and re-tasking of regulatory capacities inherited from earlier regimes. The past, in other words, was never jettisoned in toto. In this respect, blunt portrayals of the post-Mao era as emblematic of 'decentralized governance' (in relation to centralized governance) or 'capitalism' (in relation to 'socialism') will not adequately explain the transitional present. As mentioned earlier, this is a transition that is at once 'hybrid' (Shirk, 1993), 'coherent' (Naughton, 1995) and yet 'without a theory' (Rawski, 1995; Zhu, 2007). And as the case studies have shown, new dimensions to the transition have been added because political actors seek to launch experimental reforms in selected territories designated as 'nationally strategic'. Where, then, will this ‘transition’ take the central government? Or, to view this from another angle, is sustained central governance now largely predicated on the roll out of new geographies of policy experimentation?

Research following the completion of this dissertation will address these questions. The intention is to ask whether the Mao era could be reduced to the umbrella concept of “planned economy” (jihua jingji). For Qin Hui and Jin Yan (2012), key scholars of China’s ‘New Left’, China under Mao should more accurately be classified as an ‘economy of commandeering’ (mingling jingji). Under this system, commands were given randomly without much prior expert knowledge or relation to the national ‘plan’. Such randomness was particularly pronounced during the Great Leap Forward and the Cultural Revolution. The outcome was sheer social chaos, widespread poverty in the People’s Communes and, as Chapters 2 and 4 have shown,
entrenched uneven development across the country. Similarly, the economist and CPC consultant Wen Tiejun recently argued that it was only in the post-Mao era that signs of centralization emerged:

Everyone is talking about deepening reforms, but what is to be reformed? What are the problems that reforms in China are addressing? Of course many people are of the opinion that we were a planned economy in the past and right now we have become a market economy, but is it really that simple? If you seriously conduct a little research on contemporary economic history, you will discover before the reforms in 1980 China did not even get to launch a planned economy, or there was never an attempt to implement a planned economy in the true sense of its meaning. For us to come up with what resembled a plan and then make the plan reality, this only occurred after the Cultural Revolution, after the chaos was alleviated. It was only from the 1980s that China had the conditions to devise a plan, to implement a plan, prior to this could be considered a wartime economy, those were exceptional circumstances and could not count as a planned economy. (Wen Tiejun, 23 Jun 2013 Nanfang Ribao; author’s translation)

These arguments connect to and build on the reevaluation of the continuities and changes in regulatory logics during the two periods. As discussed in Chapters 2, 4 and 5, the regulatory emphasis of the Mao era was never about economic-geographical egalitarianism (in terms of output or income); it was about political mobilization, about economic nationalism, and about prioritizing revolutionary consciousness over – or in spite of – deficiencies of economic projects. In Harvey’s (1996) parlance, the primary ‘permanence’ Mao sought was ‘permanent revolution’, and he believed this ‘permanence’ would drive China to economic greatness (cf. section 2.3.1, Chapter 2). What Deng and his successors did was to reinstate household-based capital accumulation; the “permanences” they wanted were (and still are) subnational economic geographies that could compete within the global system of capitalism (cf. Breslin, 2000; Zhang and Peck, 2014).

Yet whether national economic planning could be achieved in the face of increasing regulatory constraints (as highlighted in Table 1.1, Chapter 1) and global neoliberalizing pressures remains an open empirical question that will be addressed in a subsequent research project. This project builds on a key finding of Chapters 6 to 9, namely how the formation of the two “new areas” at once reflects the lack of a centralized ‘national agenda’ and the strength of the post-1949 unitary political system in which the central government retains absolute power over the subnational governments. It reflects specifically a positive feedback loop between
decentralized policy experiments, economic-geographical competitiveness and central political power. To ascertain further the stability of this feedback loop, the new research will incorporate more extensive studies of the Lanzhou and Zhoushan ‘nationally strategic new areas’. The overall goal of this new project is to strengthen the claim that the post-Mao period was not marked by a simple turn to decentralized governance. Rather, if scholars were to develop the challenging proposition by Jin Yan, Qin Hui and Wen Tiejun that central economic planning is only blossoming in the contemporary juncture, the crucial question is whether and how this planning could work in relation to neoliberal regulatory logics that are currently hegemonic at the global scale. As this dissertation has shown, the CPC’s ability to generate the economic ‘miracle’ of the past 30 years is arguably contingent on the dynamic central-local engagement to launch “nationally strategic” policy experimentation in targeted geographies. How ‘central planning’ in China is defined in the future is thus emerging as a major geographical research field: it potentially generates new insights on whether the CPC’s experimental developmental approach could produce place-specific pathways for growth in ways that do not simultaneously undermine its overarching existential objective to stay in power forever. This dissertation is the starting point of this exciting exploration.
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Appendix A – Awards

In the buildup to the dissertation, the research proposal and conceptual design was awarded the following prizes:

- Association of American Geographers Political Geography Specialty Group Best Student Paper Award (New York, 2012)
- Association of American Geographers Economic Geography Specialty Group Graduate Research Award (Los Angeles, 2013)
- University of British Columbia Arts Graduate Research Award (Vancouver, 2013)
- Association of American Geographers Economic Geography Specialty Group Best Student Paper Award (Tampa, 2014)