

CITIES IN THE INTERNATIONAL SYSTEM

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Abstract

Municipal actions aimed at promoting local economic development through trade may in certain cases have become sufficiently developed to warrant consideration of municipal governments as actors in the international system. This paper analyzes that possibility by describing the direction of ongoing changes in the international system and assessing the potential for political conflict between city and state. Because the nascent quality of the hypothesized conflict precludes a direct hypothesis-testing methodology, the aim is rather to juxtapose the conflicting logics of the state system and the evolving global economic system to which civic governments must simultaneously conform.

Recent work in urban geography and economics has hypothesized that geographical and economic linkages have created international systems of cities which articulate the expansion of the capitalist-dominated world economic system. This paper shows how changes in the global economy are affecting the nature and role of cities within these international subsystems. The analysis posits that the changing international economic environment may be altering the relationship between cities and the states in which they are imbedded. While it is not suggested that a formal devolution of power to municipalities is likely, it is suggested that structural

requirements for economic development may be pushing national governments in the direction of removing themselves somewhat from the sphere of international economic relations. The case of the Vancouver municipal government's increasingly proactive stance in the development of commercial links with China is used to illustrate the contention that the power of municipal governments to determine the features of many international relationships is beginning to increase.

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Introduction

The notion of a municipal government making its own foreign policy seems at first glance to contain insurmountable contradictions. Diplomatic and security issues of course fall under the purview of the nation-state and national interest is universally prior to that of civic government. In the "low politics" of international trade, however, I believe that a case can be made that municipal actions aimed at promoting local economic development through trade may in certain cases have become sufficiently developed to warrant consideration of municipal governments as international actors. If this is so, then analysis of city-to-foreign-city relationships may be of interest as a subsystem of international relations. This paper attempts such an analysis.

The practical and theoretical justifications for this approach are based on very recent changes in the structure of the world's economy. This venture is therefore exploratory and somewhat speculative in nature. It attempts to describe the direction of ongoing changes in the international system and the potential for political conflict between city and state. The nascent quality of this conflict precludes a direct hypothesis-testing methodology. The aim is rather to juxtapose the conflicting logics of the state system and the evolving global economic system to which civic governments must

simultaneously conform. It should be stressed at the outset that this endeavour breaks new ground in political science. To the writer's knowledge, nothing quite like this has been attempted before. It is highly eclectic in its conception, attempting to draw together disparate literatures and paint in broad strokes the outlines of a heuristic framework for study of the changing role of municipal government.

One of many constraints on our ability to make statements about contemporary international politics is the problem of differential rates of change occurring within the international system. The essential feature of the Westphalian sovereignty system, the political border, is relatively stable over time. However, agents and elements of change -- multinational corporations, technological innovation and diffusion, environmental and military interconnectedness, and above all interdependent world markets -- are capable of rapidly transforming social, economic and political relationships within the state system. Theories of global political interaction should take into account all of these elements of change.

In recent years emphasis has been increasingly placed on the role of markets versus the role of government in multilateral negotiations among states. This may be partially explained by the fact that the impersonal phenomenon of the market tends to adapt more quickly and efficiently than governments to rapid change, technological shocks, or the rise

of new competitors. Even the traditionally socialist countries, while not abandoning their old ideologies, are increasingly pursuing economic development objectives through integration with the capitalist world economy. The increased interest of governments in international economic coordination may also be explained by the inability of both Marxist and neo-classical theories of international trade, which have provided the intellectual foundation for the post-war economic order, to deal adequately with the dynamics and complexity of the contemporary world economy.

The basic model of international trade developed by Ricardo and his contemporaries in the 19th century has of course been refined and modified by modern economists. The standard liberal position in the 1980s is based on a reformulation known as the Heckscher-Ohlin-Samuelson (H-O) theory of international trade which expands the customary focus on capital, labour and natural resources to include management expertise and technology.¹ Newer theories are attempting to come to grips with some of the problems which the H-O model does not adequately explain, e.g. intra-firm trade and intra-industry trade, but these competing analyses have not yet produced generally accepted theorems. The essence of the new theories however, is that "trade theory is the study of

¹Robert Gilpin. The Political Economy of International Relations, Princeton University Press, N.J., 1987, pg. 175.

international industrial organization"² and they stress the increasing importance of the relationship between oligopolistic corporations involved in international trade and investment and the modern states which play a much more active role in the economy than in the past.

Marxist models of international trade are based on class analysis and theoretically avoid the problems inherent in state-centric analyses. In practice, however, their view of the state as subordinate to the interests of capital (a "committee of the bourgeoisie"), errs in the other direction of undervaluing the powerful influence of states in the world marketplace. In addition, the policies which the large socialist states have followed in their trading practices have often been highly nationalistic, in contradiction to the ideal of proletarian internationalism. For these reasons the models developed by both the liberal and Marxist schools become problematic when capital seeks an international rather than a national equilibrium.

While it is perfectly sensible to base analyses of global politics on a relatively fixed feature within a changing world, i.e. the nation-state, this traditional focus of inquiry may obscure important changes within the system which states have not initiated, but to which they must formulate political responses. The alternative focus offered here is based on the notion that sets of cities, bounded either by national borders,

²Ibid. pg. 176.

geographical proximity, or economic linkages, are sufficiently interrelated to form systems, i.e. to act as coherent wholes. There has been a long standing recognition that systems of cities within national states play a variety of roles which help determine the nature of the political economy of the state.³ Within Canada, for example, a division of social labour exists among political (capital) cities, port cities, regional cities, etc.

Recent work in urban geography and economics has hypothesized that geographical and economic linkages have created international systems of cities which articulate (i.e. put together in a connected way) the expansion of the capitalist-dominated world economic system. The purpose of this paper is to show how changes in the global economy, some of which are produced by conscious political choice, others by "non-political" factors, are affecting the nature and role of cities within these international systems of cities. The analysis posits that the changing international economic environment may be altering the relationship between cities and the states in which they are imbedded. While it is not suggested that a formal (i.e. legal or institutional) devolution of political power to municipalities is likely, it is suggested that structural requirements for economic development may be pushing national governments in the

³See L.S. Bourne and J. Simmons. Systems of Cities: Readings on Structure, Growth and Policy, Oxford University Press, New York, 1978.

direction of removing themselves somewhat from the sphere of international economic relations. The power of municipal governments to determine the features of many international relationships, it is hypothesized, will therefore increase. The case of the Vancouver municipal government's increasingly pro-active stance in the development of commercial links with China is used to illustrate the contention that this process has already begun.

Political scientists customarily analyze municipal politics either by examining relationships within a single city or comparing differences between cities. These approaches tend to conceptually insulate cities from their regional and international environment by focusing on the plurality of interests which compete for the power to make rules and allocate values which affect the locality in question. The level of analysis used here is quite different and draws substantially on literature from outside the discipline-- world systems analysis from sociology, the "World-City Hypothesis" from urban planning and geography, and from recent work in the field of economics. It is hoped that political scientists will find the incorporation of these contributions from other disciplines useful and germane.

The subject and methodology of this paper was sparked by a conjunction of observations: that international economic interdependence appears to be increasingly a constraint and source of demands on policy makers world-wide, that officials

in a number of cities appear to be moving more aggressively into transnational negotiations in their quest for local economic development, and that these changes are apparently not being matched by any restructuring of the political relationships between city and state. Trade, as an essential feature of both urban life and international relations, is the area on which attention will be focused.

While the People's Republic of China (PRC) and Canada are sufficiently unlike to make comparisons difficult, taking cities as the basic unit of analysis allows some interesting contrasts to be made on the basis of the almost universal lot of cities as politically dependent artifacts of the state. Cities can be classified according to their mode of integration into the world political economy. Within this framework Vancouver, Canada and Guangzhou, China will be seen to share a number of similarities. They are also economically and culturally linked through circumstance and conscious choice. The political economy of their trading relationship will be explored, although the data relate mostly to Vancouver due to unavailability of information and difficulties of describing current affairs in the PRC, which is now undergoing rapid political and economic changes.

The context within which the Vancouver-Guangzhou trade relationship has developed is crucial to this analysis. Aside from historical and locational factors, which will be considered, both cities' position within the emerging Pacific

Rim economy is hypothesized to be a determining feature in their relationship. Secondly, although attention is focused on the relationship between one Canadian city and a city within the PRC, the ambiguous sovereignty of the Republic of China (ROC) on Taiwan and Hong Kong are also considered to have an impact on this relationship. At this writing all three "facets" of China are treated as de facto states by Canada, and in particular, as having three quite separate economies. Hong Kong, of course, will be politically absorbed by the PRC nine years from now. The reunification of Taiwan with the mainland is still officially a first order priority for both the PRC and ROC and cannot be ruled out at some future date. Evidence will be provided which indicates that a rapprochement between the two is now occurring.

All three states interfere in different ways, and to varying degrees, in their domestic economies and in the global economy, in order to protect their domestic economic autonomy from the perceived depredations of dependence and/or interdependence. At the same time all three attempt to secure stable and strategic niches within an increasing complex and unpredictable world economy, which is none the less still predicated on allowing market forces a relatively high degree of freedom. The dilemma which these competing priorities engenders encompasses many elements which are significant in explaining the nature of China's effect on a middle-power, trading nation such as Canada.

In 1978, the PRC began its historic expansion of trade with the capitalist west ending a long period of semi-autarchy and ideological commitment to an extreme form of national self-sufficiency. This is of increasing importance to Canada as it adapts to the historic shift in trade patterns away from Europe and toward the Pacific. As the world's most populous country, albeit with a very backward economy, the PRC offers a potentially vast market at some future date. Taiwan's dynamic economy, on the other hand, has generated a large current account surplus (approximately US \$80 billion) a portion of which Canada would like to attract in the form of capital investment. Hong Kong's equally vibrant economy is of great interest to Canada, especially to British Columbia and Vancouver.

The perspective taken in this paper underscores the importance of municipal institutions in international economic relations. State-centric theories of international relations⁴, it is argued, have limited utility in explaining the richness and variety of these subnational transactions, because of their emphasis on the national state's unity and autonomy from societal pressures. An alternative conception of the state is offered here as "a network of institutions, deeply imbedded within a constellation of ancillary institutions associated

⁴For example most "realist" theories (see Morgenthau, Waltz, Gilpin) which look to adjustments within the balance-of-power system to explain political change.

with society and the economic system."⁵ The major competing paradigm which may be used for this sort of analysis, world systems theory, offers a point of departure for the development of a framework capable of accommodating subnational transactions in a meaningful way.

A systems perspective⁶ runs the risk of being too broad a theory, that is to say, it may explain too much, and in overly general terms, about the "global" political economy to shed light on its constituent parts. A modified form of the modern world systems theory which takes cities as its basic operating units will be developed and employed. This may be called World City analysis. This form of analysis has been criticized for remaining at the macro-level, relying on unreliable, uncomparable statistical data, lacking an historical dimension and failing to take into consideration processes of change which are neither induced by the world system nor of an economic nature.⁷ These criticisms hold that World City analysis is useful only if based on detailed analysis of a particular city.

In response to these criticisms, this paper takes the

⁵Peter Hall. Governing the Economy, Prentice-Hall, New Jersey, 1986.

⁶see Immanuel Wallerstein, The Modern World System. Vol. I, Academic Press, N.Y., 1974; The Modern World System. Vol. II, 1980; The Capitalist World-Economy, Cambridge Press, N.Y., 1977.

⁷ R. Korff. "The World City Hypothesis: A Critique", Development and Change, Sage Publications, Beverly Hills, Vol. 18, (1987), pp. 483-495.

position that a meso-level framework which describes the relations of a particular city (in this case Vancouver) to a sub-system within the global political economy (the Pacific Rim economy) provides unique insights on a regional level. This approach aims at bridging the gap between microlevel studies of individual operating units and macrotheoretical arguments about the nature of the system as a whole. Implicit in this approach are several assumptions, argued for in Chapters I and II. The first is that cities provide an important alternative to the state as a unit of economic analysis. The second assumption, that the global system may be meaningfully disaggregated into functional regional economies, follows from the first. Thirdly, it is argued that these processes are beginning to operate somewhat independently of the state system. Questions regarding the degree of autonomy from the state system which cities enjoy become important in this paper.

Chapter I continues to discuss the theoretical concerns of this paper. It begins with the observation that state-centric analyses of the political economy of international relations are under increasing intellectual pressure to account for recent dynamic changes and adaptations in the international economy. The argument developed is that although a dualistic conception of international relations goes some distance toward a more accurate modelling of the international political economy than prevailing state-centred theories, a more accurate descriptive and analytical framework may be derived from a

modified form of world systems analysis. It is argued that as the world economy evolves, methods of analyzing it must undergo a similar evolution.

Chapter II identifies large metropolitan cities as the loci of surplus capital generation, global economic transactions and related political change. Many of these cities may be usefully conceptualized as nodes in a transnational system of capital flows which interacts with the state system in an increasingly powerful manner. This interaction influences the structure of the world political economy (WPE) which may be distinguished from the international political economy. Conceiving the global economy in terms of the former system places cities, rather than states, in a central position in modelling social, economic and political change. This is contrasted with the political position of fiscal and constitutional dependency which virtually all municipal governments are subject to in relation to their national states.

Chapter III provides the reader with historical and contemporary background material on the economic and political dimensions of Canada's trade relations with China. It is written from a state-centric point of view and attempts to summarize current thinking about the nature, value and prospects of the China trade to Canada. It provides an historical context within which the long-term relationship between this trade and Canadian historical development may be

assessed. This brief economic history focuses on the impact of British and Canadian trade activities during the imperial period of Canada's development, attributing less significance to indigenous nation-building efforts than is customary in most Canadian history writing.

Chapter IV is a case study of Canadian governmental efforts to promote trade with China. After describing federal and provincial activities in general terms, this chapter focuses on Vancouver's efforts, especially programs developed by the municipal Economic Development Office. The emphasis is on areas in which the Vancouver municipal government is able to act autonomously in the international sphere and what, if any, are the ramifications for intergovernmental relations of these activities. Municipal links with the international system which were hypothesized to exist in Chapters I and II are examined.

Chapter I Conceptual Frameworks

A. The Political Economy Approach

For analytical and theoretical clarity international politics and international economics have been isolated from one another in much academic research. While the usefulness of this division is incontrovertible, most researchers acknowledge that the mutual permeability of the disciplines weakens the explanatory and predictive powers of both. The interdependence of state and market cannot be wished away nor entirely subsumed by the models of one or the other discipline.

Historical and empirical evidence suggests that political interventions in the international economy are neither transient nor random in nature. Conversely, it is a matter of record that non-state actors such as multinational corporations, or even wealthy individuals, have periodically exercised sufficient economic power to alter the course of international events. The scope of such interventions are a matter of some debate among theoreticians of the left and right. Both sides of the argument agree, however, that isolating state and market is an analytical convenience which allows researchers to downplay the complexities of their interactive and cyclical relationship. Sometimes the two operate relatively autonomously, at other times they exhibit

high degrees of interaction. A political economy approach therefore assumes that consideration of the mutual and contingent interactions of these two means of organizing human activity is necessary to an understanding of many substantive political problems. The politics of trade, one focus of this paper, is obviously one such area.

The political significance of global economic relations in our era of increased economic interdependence among virtually all states compels us to assess the political implications of international economic transactions without undervaluing "merely" commercial matters as non-political nor with ideological blinkers which visualize political activity as "mere" superstructure. Robert Gilpin provides a basic definition of this approach:

In the absence of social, physical, and other constraints, a market economy has an expansive and dynamic quality. It tends to cause economic growth, to expand territorially, and to bring all segments of society into its embrace. Groups and states seek to restrain the operation of a market because it has the potential to exert a considerable force on society; efforts to control markets give rise to the political economy of international relations.⁸

The political economy literature may be divided into three broad types. The first defines political economy as the application of the methodology of economics, for example "rational actor" models of human behaviour (e.g. Anthony Downs) or the "public choice" models employed by Bruno Frey and

⁸Robert Gilpin. The Political Economy of International Relations, Princeton University Press, N.J., 1987, pg. 19.

others. These approaches attempt to reduce the logic of politics to economic (i.e. profit or pleasure maximizing) rationality. The second approach employs a specific political or economic theory such as Marxism to explain social behaviour. The third approach is based on a set of questions generated by empirical observation of the interaction and interdependence of state and market. It asks how the state and its associated political processes affect the production and distribution of wealth and, in particular, how political decisions and interests influence the location of economic activities and the distribution of the costs and benefits of these activities. This third approach forms the basis of this inquiry.

A first cut at the problem requires some refining of the broad categories "state" and "market". Various definitions have been offered which provide slightly different insights. Lindblom has proposed "authority" and "exchange" as the central concepts. Others have used "coercion" and "exchange", "power" and "money", or "hierarchy" and "markets"⁹. For reasons which will become clear I prefer Rosecrance's conceptualization which contrasts "market" and "territoriality".

B. Two Systems of International Relations

Richard Rosecrance in The Rise of the Trading State, argues that since the end of the Second World War the world "has been poised between two fundamentally different modes of

⁹See R. Gilpin. op. cit., pg 46.

organizing international relations: a territorial system which harkens back to the world of Louis XIV and which is presided over by the USSR and to some extent the United States, and an oceanic or trading system that is the legacy of British policy in the 1850s and which is today organized around the Atlantic and Pacific Basins".¹⁰ The former system is composed of states which view power in terms of territory and whose policies are aimed at attaining self-sufficiency through conquest. This system corresponds closely to the anarchical world of many realist theorists wherein territorial states are ontologically identical units of differing capacities competing in the zero-sum game of national survival and aggrandizement.

This "military-political world" is contrasted with the "trading world" system within which states recognize that self-sufficiency is an illusion and therefore promote national objectives through national differentiation of functions in an interdependent global economy. This system obviously relies on relatively free and open trade and provides a kind of equality of status through specialization and differentiation. Industrial countries such as Switzerland and Italy operate effectively within this system by concentrating on the production of high quality goods, Korea and Taiwan by producing low-cost, high-efficiency products and Canada through resource extraction and, to some extent, capital and technology-

¹⁰Richard Rosecrance, The Rise of the Trading State: Commerce and Conquest in the Modern World, Basic Books, N.Y., 1986. pg. 16

intensive manufacturing. This latter system corresponds closely to the world view of contemporary liberal economic theorists wherein the open trading system gives rise to an international division of labour based on comparative advantage in which all participants may gain, a variable-sum game in which the divisive nature of international politics is mitigated by the mutual benefits of trade and economic cooperation.

These two "worlds" of international relations are polar or ideal types, of course, and it is unlikely that the world will entirely adopt one system or the other. On the other hand "the contemporary knife-edge equipoise between the two systems cannot be sustained indefinitely"¹¹ and it seems clear that the imperatives of interdependent world capital markets, technological developments in transportation and communication, ecological interdependence and mutual vulnerability to nuclear attack -- in short, a smaller and more dangerous world -- are forcing the states of the world to define their national interest more and more in terms of the trading system.

For example, consider the cost-benefit calculus facing a nation today which is considering military expansion in pursuit of self-sufficiency or international status and wealth. It is very likely to find, as Japan and the Federal Republic of Germany have done, that more spectacular results in terms of the economic welfare of its people are less costly to achieve

¹¹Rosecrance, op. cit., pg. 211.

through peaceful economic development and trade. Although the atavistic ways of the territorial system still recur with disheartening frequency, especially in the less developed world, the direction of a shift of some magnitude is clearly in the direction of the trading system, driven by the interdependence of the world economy and in particular the recent emergence of the world capital market. There is an element of social learning in this process. The territorial giants, the US and USSR, have been in relative economic decline for close to two decades now, and they have become "analytically small." They can no longer compete without buying and selling abroad. The revolutionary restructuring now occurring in the Soviet Union cannot be understood without reference to its desire to be more competitive internationally. Even the US, which has had the greatest capacity for independent action in the world system since 1945, is now forced to consider greater reliance upon a trading strategy in world politics. China is now pursuing a policy of increased economic integration into the global economy motivated in large measure by the quest for economic development, foreign technology and capital.¹² Its huge population and vast territory count for less in the closing years of the 20th century than they might have in the past; it is at best a one-dimensional great power in the emerging international system.

¹²Ho, Samuel, and Huenemann, R., China's Open Door Policy: The Quest for Foreign Technology and Capital, UBC Press, Vancouver, 1984.

The trading and military systems are not simple equivalents to national market and state. Each system contains conflict, competition and cooperation in both political and economic terms. In the former system though, one finds that economic, rather than military, power is the criterion of a state's place in the international hierarchy. The essential challenges of the political economy of the two systems are different. The problematic of international relations in the military-political system is war; in the trading system it is economic growth -- how to create it, sustain it, and manage its social, political and environmental consequences.

C. Economic Development in an Interdependent World

Policies aimed at generating economic development are practically addressed in terms of economic growth as expressed by a series of statistical indicators which measure the rate of expansion of economic activity within a given state. The relative wealth of the developed world has had a demonstration effect upon political elites and populations in the underdeveloped world, encouraging them either to emulate the strategies of industrialization and market freedom if they adopt the philosophy of economic liberalism, or to pursue autarkic, protectionist or confrontational political strategies if they subscribe to classical Marxist or dependency theories of unequal exchange. Whatever perspective is taken however, it is almost universally accepted that less developed economies

are by and large being incorporated into an expanding world economy and changing from traditional to modern modes of production through the diffusion of trade, technology and investment.

Without entering into a discussion about the relative merits or assumptions which underlie the competing viewpoints (liberal, Marxist, dependency) of how international economic growth is achieved, the point may still be made that there is no overriding determinism to the expansion of the global economy. Political autonomy gives the right and capacity to sovereign states to "go it alone" if they wish. The price of autarchy in the contemporary world, however, is a reduced standard of living for the population of the autarchic state. The recent historical experiences of China, Burma, Albania and to some extent the USSR, bear this out. The rise of the NICs, conversely, has demonstrated the possible benefits of integration into the international economic system, particularly in recent times through the adoption of an export-led growth strategy. The success of the NICs is "already having an impact on the international balance of economic power and political economy, an impact that could prove to be as significant as the emergence of Western civilization as the dominant force in international economics".¹³ Sovereign states may reject, encourage or attempt to manipulate and manage economic interdependence for the benefit of their elites or

¹³Gilpin, op.cit., pg.264.

their populations as a whole. Accepting the terms of interdependence in the quest for economic development, however, arguably alters the relationship between state managers and their society. Interdependence imposes constraints on domestic policy-making and limits the range of domestic policy options.

Interdependence precipitates the rise of what one writer calls the "mediative" state, in which "policy is no longer governed by fiat", but is rather "a matter of negotiation."¹⁴ Interdependence as presently structured has led nations to rely on goods and raw materials produced by other societies. Rapid and massive flows of capital into or out of a society influence its interest rates, rate of inflation and amount of unemployment. Such transnational flows -- transboundary transactions in which one of the parties is not necessarily a government -- are increasingly characteristic of world economic interdependence. Managing interdependence requires economic policy coordination among states through multilateral fora such as the GATT, OECD, World Bank, IMF, etc. Member states are constrained by the web of contractual agreements which they have entered into in order to secure economic growth within their borders. The function of the state therefore enlarges beyond its traditional international role of providing security for its citizens to take on as well the role of negotiator, mediating between the imperatives of global competitiveness and the demands and expectations of its society. The state is (in

¹⁴Rosecrance, op.cit., pg. 208.

democratic countries at least) an instrument of the popular will, however imperfectly expressed, but also a manager of global interdependence. In an interdependent world the state "cannot assure economic security or welfare for its citizens. It can only negotiate with these objectives in mind."¹⁵ Economic interdependence, on the one hand, increases a state's vulnerability to external economic and political forces. On the other hand, interdependence, if not overly asymmetric, may provide the best means for achieving economic growth through a more efficient international division of labour. The best strategy may therefore be to encourage the growth of interdependence. The state can be said to mediate between the opposing demands of reducing economic vulnerability through self-sufficiency and generating economic growth through economic interdependence.

None of the above should be interpreted as an indication of a weakening of the power of the contemporary state. Indeed, the reverse is true in the arena of geoeconomic competition, where the state has become an active participant in the process of capital accumulation. The internationalization of production and the fiscal crisis of the welfare state which occurred in the 1970s in the industrialized countries has increased the level of state intervention in the marketplace. In Canada, for example, the Financial Post's listing of the top 500 industrial corporations for 1985 ranked by sales included

¹⁵Ibid

32 companies wholly owned by government (16 federal and 16 provincial) and another 22 which had substantial government investment.¹⁶ In 1980 the Post listed only 22 wholly owned companies (nine federal and 13 provincial) and only seven which had substantial government investment.¹⁷ The relatively recent entrance of the state into the sphere of direct capital accumulation (as opposed to providing infrastructure, loans and tax-incentives to assist private accumulation) has been called "state capitalism".¹⁸ Extensive data exist which support the contention that the state no longer merely regulates the market as liberal economists would hope, nor evidences "capture" by private capital as classical Marxian thought would predict. In a world economy characterized by internationalization of production, interdependent capital markets and the increasingly dynamic and arbitrary nature of comparative advantage (i.e. comparative advantage as a product of corporate and state policies) policy makers seek to counteract their vulnerability to external change and assert greater control over domestic resources by extending the direct role of the state as investor and producer. Increasingly, the state is producing for the market.

¹⁶Jeanne Laux and M.A. Molot. State Capitalism: Public Enterprise in Canada, Cornell University Press, Ithaca, 1988, pg. 61.

¹⁷The Financial Post 500, Summer 1980, Toronto, Maclean-Hunter.

¹⁸Laux and Molot. op. cit.

Canada again provides a good example of this trend among the OECD countries. As Harold Innes has pointed out, state intervention in the Canadian economy is an historical fact due to policies promulgated in response to the exigencies of developing its staples extracting economy. Canada's identity as a "public enterprise nation" has a long history, which is often used to distinguish it from the "free-enterprise liberalism" to the south. In the area of international trade, the existence of state owned multinational firms is, however, only one dimension of the state's trading activities. All levels of government now actively assist Canadian firms in locating export opportunities, reducing the cost to firms of dealing with foreign bureaucracies (cutting "red tape") and at the federal level, providing financing to foreign buyers of Canadian products. These activities will be discussed at some length in Chapter IV. These direct interventions by the state into the world economy are in many cases an antidote to the great power wielded in the trading world by multinational corporations.

D. Cities, States, and Multinational Corporations

The relationship between cities and multinational corporations constitutes one of the two points of contact between municipal government and the international system. Cities which understand the need of MNCs for more regional offices will be the ones to attract corporate tenants and thus

integrate themselves more fully into the global economy. Benefits which accrue to a city may be purely economic -- more jobs, additional tax revenues and greater industrial diversification -- or social -- the halt of urban decay, cultural erosion and diminishing quality of life. Costs may likewise be either economic or social. Cities are a major point of entry for transnational capital into a national state.

MNCs are powerful actors in the world political economy; in fact, they are the only actors whose power rivals that of individual states. If we take a simple working definition of MNCs as being firms that own and manage economic units in two or more countries, we find a great deal of variation, of course, in the capacities of these firms to influence or remain uninfluenced by, states. The largest however -- Philips, Shell, IBM, Nissan, Nestle, Michelin, NatWest, Hong Kong and Shanghai Bank, Citicorp, Exxon, and the like -- are clearly powerful in purely economic terms, having financial, industrial and technological resources greater than the majority of states. Although these firms are non-territorial, their trans-jurisdictional activities have powerful and controversial impacts on national economies and trade.

Internationalization of production, rapid and massive transfer of funds and a more dynamic international division of labour have occurred in large part because of the activities of MNCs. The capital and technology which these firms possess and diffuse are increasingly mobile while labour remains relatively

immobile. Their possession of these vital factors of production confers on MNCs the capacity to affect the rate, degree and form of economic development within states through investment decisions taken outside of a state's borders. While MNCs may claim to operate according to purely functional, politically disinterested, profit-oriented "logic", their decisions shape political agendas and outcomes. Conversely, the position taken by states in relation to multinational activities has political consequences of profound importance.

The value of the contribution of MNCs to national development is hotly debated. In the developed countries political activists and parties with divergent ideological preferences form uneasy alliances against what they present as a "capitalist rogue elephant". In the underdeveloped world attitudes range from extraordinary efforts to attract them through the modification of domestic policies to efforts to expell them as neo-colonialist exploiters. There is widespread recognition by nation states that having MNCs located within their territories will influence their economic futures. Having no political legitimacy, however, MNCs cannot serve as the basis for a new system of international politics or for cooperation among societies. Unlike governments, MNCs are accountable only to a relatively small percentage of a population, their shareholders, for their actions.

The relevance of MNC activities to political outcomes has been recognized by nongovernmental and intergovernmental

agencies, which have attempted to work out codes of conduct for MNCs regarding such issues as national sovereignty, employment and working conditions, technology transfers, consumer protection and environmental protection.¹⁹ The willingness on the part of many states to negotiate a modus vivendi with transnational capital through multilateral fora is indicative of a need to reject a simplistic conflictual model of state-MNC relations. Critics of MNCs sometimes appear to forget that MNCs are in the final instance nationally based and are viewed as a source of international prestige and power by their host countries. At the same time there is widespread recognition that the interests of multinationals do not necessarily correspond to those of their host states. The result appears to be that MNCs and states cooperate far more often than they conflict. The problem created by the dual nature of MNCs, being simultaneously internal in and external to nation-states, has become in practical terms one of reconciling the transnational dimension of these firms with the purely national objectives of stable currency, full employment, and industrial and regional restructuring. MNCs by their very nature, however, cannot be integrated into the host economy. Because their operations are transnational in scope they must be able to move capital, production sites and personnel around the

¹⁹See Martinelli, Alberto, "The Political and Social Impact of Transnational Corporations", The New International Economy, Makler, H., Martinelli, A., and Smelser, N., eds., Sage Publications, Beverly Hills, 1982, pp. 79-116.

globe to remain competitive. In this sense they are a part of a world political economy whose structure is global rather than national.

An expression of MNC influence on the globalization of the world economy is the so-called New International Division of Labour (NIDL). The NIDL is only one component in a matrix of interconnected changes in the organization of the world economy, but serves to focus attention specifically on the multinationals. It has been defined as "a complex hierarchical system which integrates different types of useful forms of labor of individual producers carried on under the aegis of large, highly integrated international companies."²⁰ This may be contrasted with the traditional conception of an international division of labour which was based on differences in trade between firms producing goods in different nations. In the NIDL the value of international inter-firm trade is declining relative to intra-firm trading occurring between subsidiaries or joint ventures of global corporations producing goods in different parts of the world. The most profound impact of this vast and largely uncharted increase in intra-firm trade is the integration of qualitatively different types of labourers (i.e. culturally, historically, economically distinct) into either corporate organizations which operate on

²⁰Cohen, R.B., "The New International Division of Labour", in Dear M. and Scott, A., eds., Urbanization and Urban Planning in Capitalist Society, Sage Publications, Beverly Hills, 1983, pg. 289.

a world level or into firms which exist to serve these MNCs.

MNCs initiate these changes by seeking new markets and more profitable ways to organize production on a world scale. They are also responding to national policies by developed states to strengthen the future international competitive position of selected industries and national policies on the part of developing states to stimulate the growth of export sectors by attracting MNCs. The combination of MNC's global strategies and these national policies has resulted in a reduction of profitability for many production sites in the developed world and hence, their relocation to the developing world, in particular, to the newly industrialized countries. On a national level, states respond to shifts in the NIDL by devising "national industrial strategies" and "structural adjustment" policies. The urban impact can be particularly severe. The economic future of individual cities may hinge substantially on the way in which municipal governments choose to deal with these important transnational actors.

A full discussion of MNCs exceeds the brief of this paper. Two points about them are germane. First, they should be given considerable analytical weight in any analysis of the global political economy for the reasons discussed above. Second, their activities have an important relationship with the cities in which they are located. Competition among cities for

regional offices of MNCs is intense.²¹ As discussed above, MNCs are also important agents of global interdependence, but they are limited in their activities by the exigencies of politics: MNC assessments of inter and intra-state stability, and inter and intra-state regulation.

E. Conclusion: From International Political Economy to WPE

Dividing the international system into the military and trading worlds represents a valuable evolutionary step in modelling global economic activity. However it does not take us far enough away from prevailing neoclassical theories of international trade to analyze constructively the role cities play in the world political economy. Analytical concepts based on the traditionally state centred view of international relations do not address certain questions, especially those concerning the role of cities, posed by the new international environment which has evolved since the early 1970s. The field of international economics has been virtually defined since Adam Smith as the explanation of the flow of imports and exports on the basis of international specialization determined by the distribution of production factors. This model does not account for the internationalization of production (i.e. the international purchase and sale of various factors of production which are consumed in the creation of one end

²¹D. Heenan and H. Perlmutter. Multinational Organization Development, Addison-Wesley, Reading Mass., 1979, pp. 91-106.

product, often taking place within one vertically integrated conglomerate and thus remaining "invisible" for purposes of avoiding taxation) and the transnationalization of monetary and financial circulation on the scale which now exists, nor does it give adequate analytical weight to contemporary MNCs.

Transnational capital flows, investment decision-making and the location of production sites are all constrained by the political (i.e. non-rational in purely economic terms) choices made by states. To assume that this therefore makes nation states the basic unit for theoretical analysis of the WPE is to do an injustice to the reality of the structure which is now emerging. The WPE which I have been describing differs substantially from the state-based "international economy" in its complexity and implications. The problem lies in the dual existence of two types of economy. In the state-centric view of the "international economy":

It is the world economic system that would determine the relative position of the nation-states. As a whole, it is different from the sum of its component parts. Taking national units as a basis does not allow for understanding the actual structure that is being developed. On the other hand, taking the world economy, which is still a developing system, as a point of departure makes what happens at the state level unintelligible. To stress the growing interdependence of the states does not sufficiently qualify the special features of the world economy. International specialization is clearly accompanied by interdependence. The parts of a whole are necessarily interdependent as they take on meaning only in relation to one another. But the laws of "interdependence" are, in the final analysis, those of the reproduction of the system. The problem therefore lies in a basic disparity in the analysis of the nation-state with regard to the economy. Affirming the greater importance of the world

economic system over that of the nation-states should not be interpreted as showing that the latter are eclipsed: they continue to exist, but their structure and their relations are determined by the whole of which they are part.²²

The WPE, then, is a "nest of structures"²³ which is disaggregable into functional, sectoral or national parts. An appropriate way to disaggregate or "model" the world political economy in a way which makes national actions intelligible without reference to the "international economy" approach should begin by identifying the basic source(s) of economic growth. This has been done in Jane Jacobs' pathbreaking work Cities and the Wealth of Nations, which introduces a new actor into the WPE -- cities.

²²Michialet, C.A., "From International Trade to World Economy: A New Paradigm", The New International Economy, Makler, Martinelli and Smelser, eds., Sage Publications, Beverly Hills, 1982, p. 49.

²³Tooze, R., "Implementation in a Complex Arena: International Economic Policy in a World Political Economy", Foreign Policy Implementation, Smith, S., and Clarke, M., eds., Allen & Unwin, London, 1985, pp. 95-122.

Chapter II Cities in the World Political Economy

A. Cities as Centres of Change

Urbanization is a critical process in the development of the modern nation state. Historically, all complex and advanced civilizations have sprung from the city, and in the contemporary world, urban life is the dynamic basis for most of the activities and processes we associate with modernity and economic progress.

-- Lucien Pye²⁴

The importance of the metropolis as a centre of political, technological and economic change throughout history can scarcely be overstated. The European Industrial Revolution of the late 18th and early 19th centuries was essentially urban-based, as is the Asian Industrial Revolution of our era. The city acts as a mainspring for regional economic development, providing access points through transportation links with the outside world, capital markets for resource development of the hinterland, centres for educational and research activities, new technologies (through creation, diffusion, or both) and skilled labour. Territorial states may consciously equalize the rate of growth between the metropole and the hinterland through redistributive or migration control policies (China during the Maoist period provides a good example) but the lesson has not been lost on most developing countries that

²⁴Lucien Pye. "The Political Implications of Urbanization and the Development Process", Social Problems of Development and Urbanization, Vol. 7, 1963, pg. 84.

industrial development on a national scale is demonstrably correlated with urbanization.²⁵

The relationship between urbanization and economic development has a different character in the contemporary WPE than it has had in the past. Manufacturing has declined in importance relative to the information and service sectors²⁶. The historical function of cities of providing better physical access to goods and services remains important but of ascending relevance is their role as communication centres and storehouses of information. The principal technologies of the emerging WPE are telecommunications and computing. Industrial growth based on mass production, economics of scale and low-cost resources are increasingly being supplanted by value added in transforming material related to the capacity to understand and use information in various ways. Manufacturing sites may be relocated to the hinterland, or increasingly to offshore, low-cost labour sites, but an information-driven economy requires that a host of specialized services, such as those provided by highly educated communicators, analysts and processors of information²⁷, be centralized in space. This is the role of the modern world city: it generates capital and information and

²⁵John V. Henderson. International Experience in Urbanization and Its Relevance for China, World Bank Staff Working Papers, No. 758, Washington D.C., 1986, pp. 3-5.

²⁶Henderson, Ibid. pp 7-25.

²⁷Michael Goldberg. The Chinese Connection, UBC Press, Vancouver, 1985, p. 67.

is the wellspring of local, and indirectly, national growth.

A useful notion which compresses these aspects of urban life is contained in the concept of the "transactional city" which defines urban economic activities as increasingly "brainpower-driven, therefore renewable and self-generating."²⁸ Information services, which concentrate in cities, provide the foundation stone of transactional decision making and urban centrality. Cities do not, indeed cannot, function in this way in isolation, but form the nodes of a metropolitan network, within national territories and across international boundaries. Cities are distinct entities, highly individualized groupings of interests which cannot be separated from their political, cultural, and historical contexts.²⁹ They cooperate and compete with one another. Although each city belongs to a region and a nation it also "belongs in other circuits, increasingly of an international configuration."³⁰

Studies of urban systems at the level of the WPE cannot include analyses of relationships within a single city. The focus is rather on how sets of cities operate together to make international urban systems. The potential range of growth and prosperity within, and economic structure of, such a system is

²⁸Jean Gottman. The Coming of the Transactional City, University of Maryland Institute for Urban Studies, 1983, pg. xiv.

²⁹M. Goldberg and J. Mercer, The Myth of the North American City, UBC Press, Vancouver, 1986.

³⁰Gottman, op. cit., pg. 14.

limited by the characteristics of the national economies which each constituent city is a part of and in turn by the WPE as a whole. The hypothesized relationships among cities within this system generally involve a process of exchange via comparative advantage -- or exploitation of peripheral regions by metropolitan based monopolies. When combined, exchange and exploitation largely determine how the fruits of economic growth (or decline) are distributed spatially among regions, as well as socially. Within this framework the concepts of the city and its surrounding hinterland are joined together. The functional or nodal region, centred on a city, is the basic constituent unit of the system. The concern with developing an understanding of how city networks are organized stems from an awareness of the increasing role of urban-centre activities--tertiary (services) and quaternary (services to services)--relative to primary activities in the growth of local economies and to the increasing size and power of corporate and governmental enterprises.

Most researchers acknowledge that the presence of strong interactions among a set of elements (cities) in a bounded area (state) and the existence of feedback effects which regulate growth and change implies the existence of some kind of system. The interactions within systems of cities are of sufficient complexity that they cannot be described in strictly economic or political terms because they include cultural and geographic variation, linguistic and religious differences and the like.

They are therefore best described as social systems. As complex social systems, cities and systems of cities cannot be conveniently reduced for purposes of analysis to discrete operating parts. Nor is it possible, as in most natural systems, to deduce the response conditioned by any given change.

B. The Economy of Cities

In the last address which Nobel prize winning political economist Bertil Ohlin delivered before his death in 1979 he observed that no serious attempt had yet been made to develop a theory of international trade which expressed the extent to which national borders modified the direction and volume of trade flows. He commented that although mutual interdependence price theory, which emphasizes the effects of changes in internal economic circumstances on international economic relations, is generally well known and accepted by economists, "many of its consequences are given little attention in international economics."³¹ The point of his criticism apparently concerns the unquestioning assumption on the part of most macro-economic theorists that political borders are necessarily congruent with divisible economic units, i.e. self-contained "economies". Five years later this assumption was

³¹Bertil Ohlin. "Some Insufficiencies in the Theories of International Economic Relations", Essays in International Finance, No. 134, Sept. 1979, Princeton University Dept. of Economics, International Finance Section, Princeton, N.J. pg. 2

challenged by the work of Jane Jacobs.

Jacobs argues that a basic assumption is wrong in macroeconomic theory: "It is the idea that national economies are useful and salient entities for understanding how economic life works and what its structure may be: that national economies and not some other entity provide the fundamental data of economic analysis."³² The pervasiveness of the acceptance of what she calls the "mercantilist tautology" must be seen in an historical context to be appreciated. The idea is about four hundred years old, originally formulated by the early mercantilist economists who were preoccupied with the rivalries of European imperial powers for trade and treasure. They propounded the theory that wealth consists of gold and gold is amassed when a nation sells more goods than it buys. "Of course if wealth is defined in this way, national economies automatically become the salient units of economic life; that idea is merely a tautology, the repetition of another idea, in this case the idea of national treasure."³³

In 1776 Adam Smith's influential work redefined wealth as production (supply) for purpose of consumption (demand) and sought its sources not in mines or gold but in capital and labour, and in domestic as well as foreign trade. What Smith failed to do in his brilliant reformulation of economic thought

³²Jane Jacobs. Cities and the Wealth of Nations, Viking Press, New York, 1984, pg. 29.

³³Ibid. pg. 30.

was question the mercantalist tautology, as is implicit in the title of his great work, An Inquiry into the Nature and Causes of the Wealth of Nations, and his opening sentence "The annual labour of every nation...". In short, as Jacobs says, "Smith began with what we have come to know as the gross national product and proceeded from there."³⁴

Although Karl Marx based his analysis on class structure rather than nations and predicted the withering away of the state, in practice Marxist economists continued to base their research on the prevailing assumption. For the most part they continue to describe the economic structure of a society in a language of quantitative measurement (the GNP), an abstraction which is often taken for reality.

If we dispense with the notion that political borders have some sort of natural congruence with economies then the intellectual foundation upon which all schools of macro-economic theory rest becomes problematic. Jacobs points to the case of stagflation -- the combination of rising unemployment and inflated prices which appeared worldwide in the 1970s -- as evidence of a phenomenon which should not exist according to any known macro-economic theory, but does. She points out that stagflation is not only possible but has always been common-- it is the normal condition of underdeveloped economies, where high unemployment and high prices go hand in hand. One reason this nearly self-evident truth has escaped economists is that

³⁴Ibid. pg. 32.

they have taken the nation-state as their basic unit for economic analysis.

What alternative can be offered for macro-economic analysis? Regional analysis is coming increasingly into vogue and sectoral analysis has its proponents. The logic of these approaches is not as clear, though, as that offered by Jacobs, who takes as her starting point the locus of wealth generation. Once we

remove the blinders of the mercantalist tautology and try looking at the world in its own right rather than as a dependent artifact of politics, we can't avoid seeing that most nations are composed of collections or grab bags of very different economies, rich regions and poor ones within the same nation.³⁵

This is hardly surprising to a Canadian, who is used to the importance of transfer payments, regional development initiatives, and the like as the sinews of confederation. A regional approach puts us on the right track but still does not address the issue of how and where wealth is created.

Jacobs is quite clear on this point. "Economic life develops by grace of innovating; it expands by grace of import-replacing. These two master economic processes are closely related, both being functions of city economies."³⁶ She provides detailed historical and logical arguments which accord fully with recent developments in the global economy. The dynamic growth of Japan in recent years or the truncated

³⁵Ibid. pg. 32.

³⁶Ibid. pg 39.

development in the PRC are easily explainable in terms of this analysis. There is a clear correlation between urbanization and economic development, but causation has been more difficult to prove³⁷. This causal link may now be established by placing city import-substitution at the root of economic expansion. This expansion consists specifically of five forms of growth³⁸:

1. Abruptly enlarged city markets for new and different imports consisting largely of rural goods and of innovations being produced in other cities.
2. Abruptly increased numbers and kinds of jobs in the import-replacing cities.
3. Increased transplants of city work into non-urban locations as older enterprises are crowded out.
4. New uses for technology, particularly to increase rural production and productivity.
5. Growth of city capital.

It should be added that import substitution is as important domestically (perhaps more so) as the substitution of foreign imports. The strategy of import substitution is a prescription which can be construed as running counter to the growth of interdependence. The success of export-led economic growth in recent years would appear to indicate that, for the NICs at least, encouraging interdependence is a viable growth strategy. Jacob's preference for an import-substitution policy may not be universally applicable. It is a complex question which cannot be addressed here. It does not imply, however, that cities do not provide the salient units for economic analysis, nor that the NICs might have been equally, or more, successful had they

³⁷See Henderson, op. cit., pp. 9-14.

³⁸Jacobs, op. cit., pg. 42.

followed an import-substitution strategy.

The failure to analyze economic growth within this framework, rather than a national one, is the basis of the frequently advocated and implemented policy of setting completely developed enterprises ("turnkey projects") in any place that needs regional development -- with almost uniformly disastrous results. Ignoring the root of the five forces unleashed by city import-replacing -- markets, jobs, transplants, technology and capital -- has bankrupted countries rather than help them to prosper. "None of this can we comprehend at all by dwelling on theories about abstracted supply and demand chasing themselves around in the amorphous blurs known as national economies."³⁹

The science of statistics is also having difficulties keeping up with changes in the world economy. The most problematic area concerns international balance of payments figures, which throughout the 1980s have overstated state's national deficits and understated surpluses⁴⁰. The problems of monitoring flows of money in and out of an economy, ownership of assets that are continuously changing hands, intra-firm trade across borders, and above all developing meaningful indicators of trade in services, call the usefulness of current methods of macro-economic statistics generation into question. One popular suggestion is to establish a new "information"

³⁹Ibid. pg. 44.

⁴⁰The Economist, Aug. 20, 1988, pp. 61-62.

category which cuts across existing boundaries of manufacturing and services, to include all those involved in the production, storage, retrieval and distribution of information from computer engineers to teachers to journalists. In some countries this sector may already account for one in every two jobs⁴¹.

The importance of cities to the economic life of nations and the world is well recognized even by critics of their role in capitalist accumulation. Cities are "the crucial elements in accumulation at all levels, regional, national and transnational...the locus operandi for transnationals, local oligopoly capital and the modernizing national state,"⁴² writes one critic of Third World urban development, calling cities "theatres of accumulation" which "the nature of capitalist expansion places...in a central position in any predictive models of social and economic change."⁴³ The competing assumptions which underlay the negative view of cities as extractive of the hinterland or the positive view which sees them as creating surplus for diffusion to the hinterland provides an interesting topic for research which might go some way to reconciling the Marxian and Liberal viewpoints⁴⁴.

⁴¹Ibid

⁴²Terry McGee and W. Armstrong. Theatres of Accumulation: Studies in Asian and Latin American Urbanization, Methuen, London and New York, 1985, pg. 4.

⁴³Ibid. pg 224.

⁴⁴Exposition on the myth of agricultural primacy...

Without entering into a normative debate about this feature of cities, the point may still be made that the city is where the most important transformations and transactions in the WPE take place. In view of this vital function, why is it that cities are almost universally powerless in political terms?

C. The Constitutional and Fiscal Dependence of Cities

Cities cannot be isolated from the political context in which they have grown or the societies in which they are integrated. With this caveat in mind, however, it may still be observed that the political-economic structure of the vast majority of states assigns municipal government a position of constitutional and fiscal dependency. The use of the word "government" to describe municipal political structures is arguably a misnomer; in reality they are often better described as administrative units within a larger (provincial or national) governmental structure. A cross-national comparison of two states which are quite dissimilar in most other respects, China and Canada, will support the validity of this contention.

Canada is typical of federal states in its cession of political power over municipalities to the provinces. Section 92 of the Constitution Act of 1867 assigns specific responsibility for municipal institutions to provincial legislatures. Under Section 92(C) the provinces are given powers to raise revenue by direct taxation, therefore the only

sources of revenue available to the municipalities are those granted by the province. "In general terms, these have come to include real property taxation, licensing fees, and transfer payments from provincial governments to the municipal level."⁴⁵ The progenitor of the Canadian model of provincial-municipal relations was Ontario, which in 1849 established a blueprint for the present system in which municipal institutions were given an administrative rather than a political character⁴⁶. Conformity with this model has in practice led to "the division of local government organization and assignment of important local responsibilities to independent "non-political" agencies, boards and commissions remote from the locus of local government responsibility."⁴⁷ Senior government transfer payments are conditional and provide the majority of municipal revenues. Because financial independence is crucial to municipal autonomy, local options are severely circumscribed.

There is a tendency at all levels of government to see intergovernmental relations in hierarchical terms. It may be misleading however, to utilize a "layer cake" rather than a "marble cake" image⁴⁸. In many sectoral or functional issues

⁴⁵L. Feldman and K. Graham. Bargaining For Cities: Municipalities and Intergovernmental Relations, An Assessment, Institute for Research on Public Policy, Montreal, 1979, pg. 5.

⁴⁶C. Tindal and S. Tindal. Local Government in Canada, McGraw-Hill Ryerson, Toronto, 1984, pp. 11-33.

⁴⁷Feldman and Graham, op. cit., pg. 7.

⁴⁸Morton Grodzins. The American System, Rand McNally & Co., Chicago, 1966, pg 14.

civic institutions have a variety of channels of communication with the senior levels of government available to them. In practice, however, they usually act in concert with the senior orders and defer to their wishes. This willingness on the part of civic politicians to define their role as one of delivering services on behalf of the senior levels of government limits local autonomy even more completely than their structural dependency on provincial governments. This has been described in terms of the political "immaturity" of municipal governments. "The tendency of local politicians publicly to divorce "politics" (a dirty word) from municipal government perpetuates the political immaturity of the system."⁴⁹ In effect, municipal governments take an administrative service delivery approach rather than a political one. They seek election on a "service" basis and local political platforms, which are not based on affiliations with provincial or federal parties, have very little "political" content. As well, because municipal politics is often seen as a stepping stone to higher office, municipal politicians may be co-opted by their provincial or federal ambitions.

In the late 19th and early 20th centuries local governments were, by and large, left alone to deal with local social and economic problems.⁵⁰ Senior governments as a matter

⁴⁹Feldman and Graham, op. cit., pg. 101.

⁵⁰J.H. Taylor. "Urban Autonomy in Canada: Its Evolution and Decline", The Canadian City: Essays in Urban and Social History, Artibise and Stelter, eds., Carleton Library Series, Carleton

of policy were non-interventionist. The erosion of the political autonomy of municipalities has been a long and uneven process which began around 1880. At this time certain functions and offices were removed from direct control of city council (e.g. the Vancouver Water and Drainage Districts) and placed under the control of specialized boards and agencies representing a number of jurisdictions. Although this was often done at the request of the municipalities themselves, and had the effect of concentrating certain functional powers in larger municipal associations (e.g. metro boards), in the long-term this process placed more local matters under provincial supervision and, in effect, fragmented or diluted local authority. This process of fragmenting municipal jurisdictions accelerated around World War I, during which time senior governments assumed control over most funding and regulation of service programs. By 1940 it had become standard practice for provincial governments to decide which services should be undertaken on behalf of its citizens and to pass on without consultation a portion of these costs to the municipalities.

In the postwar period an outburst of provincial legislative actions, while not formally removing local government power, effectively created a divergence between legal and real power, with the latter accruing to the provinces and centre. A major vehicle for this evolution was the erosion of the local tax base, where provincial authorities eliminated

local income taxes, sales taxes and personal property taxes, eliminated or reduced the local share of liquor and motor vehicle taxes, and placed restrictions on the exploitation of the property tax.⁵¹ Municipalities became dependent on the transfer payment, usually in the form of the conditional grant.

Some attempts have been made to increase municipal bargaining power in Canada. One such example was the "tri-level" conference approach, initiated by the Federation of Canadian Municipalities in the 1970s in order to secure a better awareness of their interests by senior levels of government. It ended in failure in 1976 because no benefit to the provinces or the centre could be demonstrated⁵². Despite having a federal "champion" in the Ministry of State for Urban Affairs (MSUA) in their quest for a decision-making forum on revenue sharing and more vital consultative process, they had insufficient support from the federal government, especially within the all important Finance ministry, and from the provinces. The federal perception was that it would add to the "chorus of voices"⁵³ from the provinces and the provinces saw it as a challenge to their prerogatives. The MSUA was disbanded in 1979. Constitutional fatalism seems to have institutionalized the "immaturity" of municipal governments and kept even the large cities from developing the organizational

⁵¹Ibid.

⁵²Feldman and Graham, op. cit., pp. 29-46.

⁵³Ibid. pg. 51.

and resource requirements sufficient to compete in the intergovernmental arena.

The effect on municipal policy making is clear. The planning process, as manifested in the lack of general or master plans for the development of urban infrastructure, tends to be ad hoc, without well thought out statements of intent, leaving a policy vacuum for other levels of government to fill. Canadian municipalities "have tended to articulate policy through a series of specific decisions, often made in reaction to events," and in turn "unilateral action by senior levels has been in response to a lack of local initiative."⁵⁴ The provinces and federal government have the resources and sufficient political autonomy to engage in long term or strategic planning in preparation for anticipated future change (e.g. see the 10-year plan for British Columbia described in Chapter IV). Elected politicians at the senior levels of government generally serve longer terms, have more extensive financial and human resources at their command and, most importantly, have the constitutional autonomy to ensure the implementation of their long-range plans. Municipalities, on the other hand, react rather than initiate. Feldman and Graham isolate four structural reasons for urban intergovernmental weakness⁵⁵:

1. No executive committee of council;

⁵⁴Ibid. pg. 118.

⁵⁵Ibid. pp. 112-113.

2. A weak mayor system;
3. Absence of political parties;
4. Fragmentation of local government with its reliance on special purpose bodies.⁵⁶

This last weakness is particularly important because municipal relations with the senior levels of government are carried out largely at a functional rather a political level. This functional specialization fosters a limited and parochial viewpoint which breeds a limited interest in the profound effects intergovernmental decisions have on municipalities. The city is not organized as a bargaining unit. It has no sovereignty or independence.

The perception of the political irrelevance of municipal governments is reflected in a characteristically low voter participation in civic elections.

D. Circuits and Networks of Capital

The notion of a world system of market relations or of a globalized marketplace which overrides national and regional differences must be handled carefully if it is not to lead to arid abstractions. The theories put forth by neo-classical economists often become problematic because of a tendency to extend the logic of economic relations, grounded solely in references to capital, price, exchange rates and rates of return, into the WPE, ignoring the matrix of specific socio-

⁵⁶These are generally applicable in Canada but there are exceptions. Vancouver, for example, has atypically extensive powers, granted through the vehicle of the Vancouver Charter.

cultural and political relations which co-exists with transnational capitalist expansion. Neo-Marxist scholars have equally serious problems when they project class analysis into the WPE, when nationalism has clearly triumphed over transnational class consciousness and when human agency is omitted from their formulations. "That Marxists continue to consider "internal" factors as concrete and "external" factors as abstract is a capitulation to one of the most fundamental mystifications of the modern world-system."⁵⁷ Both local and world-economic structures are real, but each obeys its own internal logic.

The world-system perspective developed by Wallerstein⁵⁸ provides a point of departure from which international systems of cities may be studied. Wallerstein's model, however, includes the problematic thesis of structural dependency. Dependency relations undoubtedly exist among radically unequal state actors but many relationships within the world system, for example the China-Canada trade relationship, are not usefully explained by this model. Further, the intention of the present analysis is to avoid a state-centric view for reasons discussed above. The problem may be avoided by using a "World City" model which views the WPE as a structural reality

⁵⁷R. Chase-Dunn. "Urbanization in the World-System: New Directions for Research," Cities in Transformation, ed. M. Peter, Sage Publications, Beverly Hills, 1984, pg. 111.

⁵⁸See The Modern World System. Vol. I., (1974) and The Modern World System. Vol. II, (1980), Academic Press, N.Y. Also The Capitalist World Economy, Cambridge Press, N.Y., 1977.

within which the process of capital generation and accumulation takes place primarily in cities.

The World City perspective assumes the existence of a world economic system which brings the vast majority of production, marketing and capital accumulation activities into its embrace. It attempts to ground this worldwide system of market relations in an historically and locationally specific context. The major transactions and effects of this system are manifested in the World City, a collective name for a finite set of large, intensively urbanized regions closely interconnected through communications and finance. These cities articulate a world wide system of control over market expansion, within which most of the world's active capital is concentrated. This is a dynamic system, affecting and being affected by the fortunes of actors in the state system and global shifts in comparative advantage. The list of cities is short and variable but usually includes: London, Paris, Randstaad, Moscow, New York, Tokyo, Hong King and Mexico City⁵⁹. Some writers include : San Francisco, Sao Paulo, Singapore, Bombay, Sydney, Frankfurt, Miami and Houston⁶⁰. The population size of a world city does not directly reflect its functional centrality in the world economy, but there is

⁵⁹Hall, Peter, The World City

⁶⁰John Friedmann and Goetz Wolff. Notes on the Future of the World City, School of Architecture and Urban Planning, UCLA, Los Angeles, 1981.

probably a correlation between the two⁶¹. To regard these cities as nothing more than "control points" in the WPE would be wrong because they have two aspects, being integrated as well into existing political systems at historically specific places in which they carry out administrative roles and contain significant percentages of the national population and industrial plant. What little literature exists which deals with urban political economy from the world system perspective tends to focus on these cities.

A second network, or circuit, upon which this paper will focus, is a system of national or regional centres (Secondary Cities). Here a distinction must be made between states which exhibit a skewed population distribution in which the largest national city has more than twice the population of any other cities in the state (e.g. France, Taiwan, Thailand) and a more balanced distribution (e.g. Canada, China, the US). In states where urbanization is localized in the former uneven manner (exhibiting what is called a "primate" city distribution) national and regional cities would form a second and third level respectively, while the market towns would become a fourth level⁶². Because Canada and China do not exhibit a primate city formation we may simplify the model to World Cities, Regional or Secondary Cities, and Market Towns.

⁶¹Chase-Dunn, op. cit., pg. 116. Also see Henderson, op. cit.

⁶²McGee, op. cit., pp. 55-60.

Determining whether a city should be called a world city or secondary city is in some cases quite difficult. Vancouver officials, for example, refer to Vancouver as a world city, but it is clearly not in the first rank of cities listed above. No Canadian cities, in fact, are included in the lists in the literature. Little aggregate information of this type exists⁶³, thus analysts are forced to fall back on available data and use population size as an initial criterion. The lack of empirical data useful for delimiting categories within this framework is a problem recognized by all researchers, but the intuitive correlation between population and variety of city functions would seem to justify its use until further research is conducted. The critical variable which determines a city's place in the WPE, however, is its mode of integration with the global system of economic relations⁶⁴.

The following sorts of questions must be asked to locate cities within a framework based on this analysis. Is a city an important headquarters for multinational corporations (1st circuit)? Does it have regional MNC headquarters (2nd circuit), or no direct MNC representation (3rd circuit)? Does it produce for the world market or is its chief economic function as a marketplace or administrative centre? Does it rely on world trade (either as a major point of transshipment

⁶³Denis Rondinelli. Secondary Cities in Developing Countries, Sage Publications, Beverly Hills, 1983.

⁶⁴Friedmann and Wolff, op. cit., pg. 5.

or in its sale of goods and services) or does it primarily serve a regional market? Does it contain significant research and development activities? Perhaps the most important question to ask in a determination of emerging world cities, (i.e. whether a city moving into or away from the global circuit of cities), is whether it is an import-substituting city. Are the five forces of economic growth which Jacobs specifies (markets, jobs, transplants, technology and capital) enlarging or contracting within a given city's local economy?

E. Conclusion

Large urban centres have historically been hotbeds of new ideas and intellectual and political ferment. They are often therefore the actual or potential harbingers of social and political change. In our era the transition from an industrial to post-industrial (or information) economy is most acutely manifested in the economies of cities. One thing which differentiates this transformation from past socio-economic or political transformations is the speed with which these changes are transmitted throughout systems of cities which cross international boundaries.

One reason that the relationship between cities and this constellation of interrelated changes has received little attention has to do with the way economic activity has historically been analyzed. If we accept Jane Jacob's argument that the nation-state does not provide the fundamental unit for economic analysis, then we must question the fundamental

premise upon which modern macroeconomic theory rests. If she is correct, then many of the economic development strategies employed by the world's states are based on faulty theory. Economic development should no longer be seen as something which can be organized on a national scale, but rather as a small-scale, do-it-yourself process of change consisting of activities that increase versatility and create networks among small manufacturers which help innovation. In the same way that "sympiotic collections of little enterprises"⁶⁵ are the touchstone of economic growth, regional systems of cities are capable of spreading economic development throughout the world economy.

Because this theory of economic life is new, and not widely accepted, the statistical data appropriate for understanding the city's relationship with the WPE does not yet exist. This creates methodological problems for research into the urban systems under discussion. The method of analysis must therefore be based on logical and historical arguments which point to the centrality of urban economic activity in the articulation of the global political economy. This approach can take account of the importance of geography and history, which are often given too little emphasis in state-centric theories of both political and economic international relations.

The constitutional and fiscal dependence of cities within

⁶⁵Jacobs, op. cit., pg. 84.

virtually all states distorts the development of this emerging network of cities. National economies combine all transactions into a giant stew -- the national currency -- which "misinforms" cities about their status in the WPE. The economic success of the city-states of Hong Kong and Singapore underscore the importance of a city's ability to get accurate feedback on its relative economic health through appropriate currency devaluations and revaluations and interest rates which reflect local realities. This is of course not possible in states such as Canada where, for example, if the Toronto economy is "overheated" it drives up interest rates in other parts of the country where such action may be inappropriate and detrimental. Municipalities have no power to respond to changes of this nature.

The parallel developments of the information economy and the globalization of capital markets have created multi-leveled and complementary international "circuits" through which these commodities flow. The nodal points along these circuits, where transactions and transformations in the world economy take place, are overwhelmingly located in cities which have stable and broad based economies, abundant educational and research resources and produce information and capital. The relationships and linkages between various levels of this "circuitry" will require further research to uncover.

The remaining chapters will attempt to ground the abstract notions discussed above in specific relationships. The Canada-

China relationship was chosen in part because the countries are so dissimilar. While comparative perspectives obviously examine differences between states, most assume that certain features should be shared, thereby avoiding the problem of "comparing apples and oranges." One possible value of the World-City perspective is that it may allow comparisons to be made on a more universal basis. Chapter III, because it takes a state-centric view to provide background material, stresses the differences. Chapter IV, which returns to the municipal perspective, stresses similarities.

Chapter III

Canada and the China Trade

A. China's Historical Impact On Canada

In an important, albeit limited sense, the history of Canada has always been bound up with the China trade. The early explorers of the New World, Columbus, Cabot, Hudson, Frobisher and Cartier, were all seeking a new route to Cathay. Lachine (China), now a suburb of Montreal, is an enduring testament to Jacques Cartier's belief that he was close to China as he explored the St. Lawrence River. For 350 years after Columbus expeditions were repeatedly mounted in search of a northwest passage through Arctic waters to the Orient. By the 17th century, however, it had become evident that a commercially viable Arctic trade route was unlikely to be found and the Hudson's Bay Company, which had been granted the right to explore and exploit the vast West of Canada, turned its attention to furs instead of silk and spices.

In the 1840s the new English invention of the steam railway rekindled the dream of a new commercial route from Europe to the Orient. A Toronto promoter, lawyer and former cavalryman, Allan Macdonell, was apparently the first to realize the implications for trade of a transcontinental railway.⁶⁶ He solicited the government of the province of

⁶⁶A. MacKay. The Asian Dream: The Pacific Rim and Canada's National Railway, Douglas & McIntyre, Vancouver, 1986, pg. 108.

Canada for a charter to build the Lake Superior and Pacific Railway, in order to create "the shortest, cheapest and safest communication for Europe and all Asia."⁶⁷ The government of the day turned him down but the American reaction to his proposal indicated that he was being taken seriously in some quarters. An editorial in the New York Tribune of 27 March 1851 expressed fears that a route through British America might be more sensible than one through the United States:

Having its Atlantic seaport at Halifax and its Pacific depot near Vancouver's Island, it would inevitably draw to it the commerce of Europe, Asia and the United States, so thus, British America, from a mere colonial dependency, would assume a controlling rank in the world. To her, other nations would be tributary, and in vain would the United States attempt to be her rival; for we could never dispute with her the possession of the Asiatic commerce, or the power which that commerce confers.⁶⁸

The disinterest of the Hudson's Bay Company, which controlled virtually all of the territory of British North America west of the Great Lakes, effectively kept Macdonnell's vision from becoming a reality in the short term. In the U.S. however, the threat was taken seriously and after much prompting by wealthy New York traders, the Congress finally backed a scheme to outrace the Canadians to the Pacific coast, the Union Pacific Railway (which succeeded in completing a transcontinental link in 1869, 16 years before the CPR). For the next three and a half decades in Canada, the political fight to get the transcontinental railway built would involve

⁶⁷Ibid. pg. 42.

⁶⁸Quoted in Ibid. pg. 19.

politicians in a series of scandals and heroic endeavors which represent the fascinating formative years of Canadian history.

The role played by the railroad in the unification and development of the Canadian state is widely held to be of such importance that it has taken almost mythic prominence in Canadian history. The "national dream" of a Canada extending from the Atlantic to the Pacific was made possible, it is alleged, by the cooperative efforts of the fledgling Canadian state and the railroad entrepreneurs to construct a transcontinental iron road linking the disparate British territories north of the 49th parallel. This conventional reading of Canadian history emphasizes the "defensive expansionism" of the visionary proto-Canadian politicians who feared absorption by expansionist-minded Americans to the south.

What this account does not acknowledge is that it was the lure of trade with the Orient, rather than the opening of the West, which provided the initial impetus for building the railway. The oceanic portion of this route was always an integral part of this development strategy. The CPR built a large fleet of ships to service China and the Orient immediately after the completion of the transcontinental link, supplementing an already active fleet which had plied the Pacific routes between British Columbia and the Orient since the 1860s. That the accession of BC to Canada was contingent on the railway being built, and the role it played in the

settlement of the west is well known. But British Columbians also saw the benefits of expanding the Pacific trade. This commerce had been more or less continuous since the introduction of steamships in the late 1860s, which reduced travel time from Victoria to the China coast from the 120 days taken by the clipper ships to 80 days. The British Columbia exports of lumber and salted salmon were relatively minor until the coming of the CPR and founding of the city of Vancouver in 1886 but quickly expanded and diversified. Shortly after, a land boom occurred in Vancouver, predicated in part on the opening up of the vast China market.⁶⁹ The government of Canada subsidized the sea portion of the CPR routes to the Orient and in the 1890s, under the Canada Trade and Commerce Act, the first full-time trade officers were sent to the Far East to "remove one of the principle obstacles [lack of representation] in the way of extended traffic with countries with which we now have regular and frequent steamship communication."⁷⁰ In 1891 China bought coal from Vancouver Island and a quantity of prairie wheat the following year.

Laurier's battles to build the Grand Trunk Pacific Railway, with its terminus at Prince Rupert, had been sustained by the prospects of trade with the Orient and he spoke of the "market of four or five hundred millions" which he assumed to

⁶⁹P. Keller. "How The Canadian Government Promotes China Business", The China Business Review, Jan-Feb, 1988.

⁷⁰McKay, op. cit., pg. 111.

be waiting eagerly for Prairie wheat and flour and British Columbia lumber. He saw the trans-Pacific trade as a means of lessening dependence on the United States. In the long view of history, Laurier's belief that the markets of the Pacific Rim were of inevitable importance to Canada was correct, but it would take much longer than anticipated. Competition among Canada's three railways (the CPR, Grand Trunk and Canadian Northern), the recession of 1913 and the opening of the Panama Canal combined to create a situation in which Canada was unable to compete effectively with the U.S. and others in the Pacific trade. The solution offered by the royal commission appointed by Prime Minister Borden in 1916 to study the problem was to amalgamate and nationalize the railroads. The new Canadian National Railway became the largest railway system in the world outside of Russia, employing 99,000 people, making it the largest industrial employer in the country. Between 1913 and 1921 Canada's exports to China increased ten-fold, although this still represented a miniscule portion of Canadian trade. The national transportation system was an enormously significant public enterprise and, along with the national tariff policy, was a strong influence in shaping the current economic structure and distribution of wealth of the country. The conviction of successive Canadian governments that free market forces alone will not solve pervasive and persistent regional disparities stems from this period which helped to define Canada's "public enterprise" political culture.

B. Contemporary Canada-China Trade.

Political Dimensions

Trade ties between China and the West, severed during the Second World War, were just beginning to be forged again when the communist forces of Mao Zedong swept into power in 1949. The retreat of the nationalist Kuomintang under Chiang Kai Shek from the mainland to Taiwan presented the world with a diplomatic conundrum which has yet to be satisfactorily resolved. During the 1950s and 1960s the new communist government often took a stridently anti-capitalist and anti-western stance, based on an ideological commitment to self-reliance, non-material incentives and egalitarian goals. This often confrontational attitude on the part of Beijing helped to prompt a commitment from the western security bloc, led by the United States, to prop up Chiang's pro-western regime on the island of Formosa, and to isolate the People's Republic of China from the developed world economy.

While Canada did not join the embargo promoted by the U.S., the volume of bilateral trade was relatively insignificant from 1949-71. Western refusal to recognize Beijing as the de jure government of China doubtless contributed to this state of affairs. A few states recognized Beijing for their own reasons, notably the U.K. in 1950 and France in 1964, but it was not until the 1970s that the diplomatic logjam began to break. Canada recognized Beijing in

1970 and most of the west followed during the remainder of the decade with the U.S. finally formalizing recognition in 1979. At this writing, only 22 nations still recognize the Republic of China on Taiwan as the legitimate government of China.

The act of recognition in 1970 provided the institutional underpinning for increased bilateral trade and raised high hopes in Canadian business circles for vastly increased levels of trade, but the reality was less than had been hoped for. Although the total volume of PRC trade increased tenfold between 1970 and 1978, from about \$4 billion to \$40 billion, the Canadian component of this trade was heavily weighted in favour of foodstuffs, primarily wheat. The often tumultuous internal politics of the PRC during this decade were more than once reflected by dogmatic adherence to a Marxist economic ideology which kept China from structuring an economic strategy which would allow for a more variegated and greatly expanded trade. China, as a great continental power, has historically never been greatly reliant on trade in any case.

The ascendance of the reformers under Deng Xioping in 1978 began a radical transformation of Chinese policy toward the outside world which is no less revolutionary in its implications than the Maoist interregnum. The process of political reform and economic restructuring now appears to be built upon an increasingly firm foundation, and although a reversal to a doctrinaire ideological approach is still possible, its likelihood diminishes with each passing year.

Because China is now in political flux, undergoing a true revolution in production relations, predictions about the scope and direction of its trading activities are extremely hazardous. There are many indications however, such as its recent interest in joining the General Agreement on Trade and Tariffs (GATT), the apparent rapprochement with Taiwan, the "Open Door" policy, and above all the structural need for foreign technology and capital, that the PRC is cautiously but inexorably moving in the direction of integration with the capitalist dominated global economy. With the caveat that it is possible (but increasingly unlikely) that the PRC may reverse the policy direction of the last decade, this paper examines the process of this integration from the point of view of a medium size trading nation, Canada, which would prefer to downplay geopolitical problems with China and focus its attention on the development of bilateral trade.

The Taiwan Problem

The political dimensions of the PRC's foreign economic relations are often linked with the Taiwan-PRC recognition issue. The PRC has not renounced formally its claim to Taiwan as a province of China and the official position in Beijing is that any means, including force, are still reserved for the unification of the homeland. The Republic of China (ROC) also has never renounced its claim to be the sole legitimate government of the mainland. Even in the context of political

liberalization and democratization ushered in under Taiwan's new president, Lee Teng-hui, Taipei's official position vis-a-vis Beijing is unequivocal. Neither the "one country, two systems" doctrine proposed by the communist regime on the mainland nor making Taiwan an independent state as advocated by the (presently) small group of secessionists is acceptable to the ruling KMT as an alternative to the system being created by the KMT as a model for the future of all China.⁷¹

Some progress has been made to reconcile these apparently irreconcilable views. The Olympic formula of 1979 (the "Nagoya Resolution") which allowed the PRC and the ROC to compete in the 1984 Olympics at Los Angeles under the rubrics "Chinese Taipei" and PRC, has been extended somewhat precariously into other international forums.⁷² In 1983 the PRC was a member of 423 international organizations while the ROC was in 499. They have co-memberships in 132 organizations, all NGO's. Of these 132 organizations, 32 were sports and recreation oriented, but the remaining 100 encompassed as variety of fields: science, technology, economics, politics, etc.⁷³ Problems remain however. At the 21st meeting of the Asian Development Bank in May 1988, Taiwanese delegates broke a two-year boycott of the

⁷¹See for example Asian Outlook, a monthly publication which reflects the official Taipei position on these issues, esp. April 1988 and June 1988.

⁷²G. Chan. "The Two-Chinas Problem and the Olympic Formula", Pacific Affairs, Vol. 58, No. 3, Fall 1985.

⁷³Ibid. pg.

annual meetings, prompted by the PRC's accession to the 47-member regional development organization in 1986, but refused to wear their official badges, which read "Taipei-China" instead of "Taiwan".⁷⁴ Officials from the mainland registered their protest over Taiwan's protests.

The recognition issue appears to be of declining importance in bilateral trade matters. Canada, through the expedient of the Canadian Chamber of Commerce, maintains "unofficial" relations with Taipei as does the U.S. While Taipei would certainly like to be recognized as the legitimate government of all China, the present arrangements seem to be accepted by all concerned as the best possible solution to a bad situation.

Mixed messages emanate from Taipei. In July 1988 President Lee, usually characterized as a non-extremist who puts reason before passion, felt it necessary in his confirmation address to the 13th national congress to speak of the "evil nature of communism" with its "tricks of deception and subversion" and warned that "we must not slacken our preparedness for war."⁷⁵ At the same time Taiwan is undergoing rapid democratization and the ruling KMT's grip on power is slackening markedly. A week after Lee made these comments the first member of Taiwan's Parliament to visit China arrived in

⁷⁴The Globe & Mail, "Asian Development Bank faces declining relevance as a lender." May 4, 1988.

⁷⁵Asian Outlook, June 1988, Taipei.

Beijing in defiance of government orders.⁷⁶ While Taiwan-PRC trade through intermediaries, primarily Hong Kong, has been going on for years, the PRC is now openly courting Taiwanese investment, which tends to go to geographically proximate Fujian Province. New regulations promulgated in July 1988 impose fewer restrictions on investors from Taiwan (called "compatriots" by Beijing) than those placed on Hong Kong Chinese or other foreigners who invest on the mainland. The PRC will also guarantee to keep secret the identities of Taiwanese businessmen who request anonymity to protect their interests at home.⁷⁷ Taipei's attempts to control business activities will be extremely difficult in light of the fact that visits to the mainland are now permitted for Taiwanese of Chinese origin.

Economic Dimensions

The People's Republic of China is Canada's sixth largest trading partner, behind the U.S., Japan, United Kingdom, Federal Republic of Germany and the USSR. Because of the overwhelming dominance of the U.S. in Canada's trade activities, this position is inevitably one of relatively minor consequence to Canada as a whole. Although the prospect of supplying the vast population of China with Canadian goods has

⁷⁶Globe and Mail, "Taiwanese MP visits China." July 19, 1988.

⁷⁷Globe and Mail, "China Unveils Measures to Attract Taiwanese." July 7, 1988.

been as symbol of great hopes for over a century, the reality of trade linkages has been characterized by frustration, disappointment and periodic revision of overoptimistic expectations.

From the time of Canada's formal recognition of the Beijing regime in 1971, trade volume increased steadily, if unspectacularly, until 1983 (See Table I). From \$160 million in 1970, two-way trade rose to over \$1 billion in 1980, a six-fold increase, and to slightly under \$2 billion in 1983, each year showing a marked imbalance of the terms of trade in Canada's favour.⁷⁸ During the 1970s however, Canada's share of the China trade declined from 4.5% in the first half of the decade to about 2.5% in the latter half. If national trade figures suggest a peripheral importance of Canada-China links for Canada it is of even less importance to China, Canada accounting for less than 1% of China's total exports.⁷⁹

The pattern of Canada's China trade changed, and is continuing to change in the 1980s. Canadian exports were initially dominated by food products. During the 1970s wheat accounted for up to 80% of Canada's exports to China. Modest diversification during that decade has expanded during the 1980s into a trade picture marked by great increases in sales of fabricated materials such as newsprint, synthetic rubber and metal concentrates and highly manufactured technology-intensive

⁷⁸Cheh, op. cit., and Curtis, op. cit.

⁷⁹Ho and Huenemann, op. cit., pg. 14.

products ("end products") such as drilling equipment, mining trucks, aircraft, satellite earth stations and telephone switching equipment. While wheat is still the largest single export item the major growth area for Canadian exports is in the end product sector. Sales in this sector rose from only \$13 million in 1983 to \$305 million in 1986, a 23-fold increase in just three years.⁸⁰ This diversification of product mix however, was accompanied by a decline in aggregate trade levels between 1983 and 1986, although trade levels rebounded in 1987 to \$2.2 billion, the best year ever (excluding 1983) in absolute terms, but more importantly with a more balanced category mix than in the past (See Table I).

Manufactured products now make up about 75% of China's exports to Canada, including textiles and clothing, which themselves account for about half of these exports.⁸¹ Unfortunately, from China's point of view, these products are not eligible for exemption or reduction of duties which apply under the General Preferential Tariff (GPT) treatment extended bilaterally by Canada in 1980. Food and beverages, toys, household goods and light industrial wares are unrestrained under the GPT and China's exports of finished goods to Canada is therefore increasingly composed of this class of goods.

The main limiting factor in the expansion of bilateral trade is Canada's continuing trade surplus with China. This

⁸⁰Cheh, op. cit.

⁸¹Cheh, op. cit.

may be contrasted with the much larger PRC-US trade, in which China maintains a surplus, a far more satisfactory state of affairs in the Chinese view. Textiles and clothing are the principal means of earning foreign exchange and bilateral trade possibilities are therefore constrained by the Canadian policy on the protection of Canada's indigenous textile and clothing industry. Chinese negotiators have repeatedly stressed that trade is a two-way street and that Canada must make adjustments in order to expand the level of this bilateral trade.

C. Complementarity and Comparative Advantage

Trade has always been a central feature in Canada's historical development. Canada remains a trading nation, with an "open economy" which exports one third of all it produces and imports one third of all it consumes. Three million Canadians owe their jobs directly to international trade.⁸²

China, in contrast, has not been a great trading nation since the 18th century. Europe's commercial expansion in that century left China far behind for numerous historical reasons which cannot be fully considered here. A few points may be adduced however. Agriculture formed the core of the Chinese economy. It was proportionately more productive than in Europe and revenue from trade was less necessary. Thus,

Peking thus did not need the merchants as the King had needed them in Europe to finance the ascendancy

⁸²Vancouver Sun, "Look to Asian trade, Carney says." July 9, 1988.

of the national state, to pay for its wars with rival states, or to meet its normal bills. No concessions were necessary; the merchants could be squeezed dry, and were, with no harm to the state.⁸³

The largely urban-based KMT was the first political expression of an independent entrepreneurial class which had formed and prospered under the treaty-port system imposed by European imperial traders in the 19th century. The merchant capitalists of Shanghai and the other treaty ports were the focus of the rural-based communists' wrath and Mao rode into power in part as a crusade against them. This distrust of international trade was understandable, of course, as the unequal terms under which China was forced to trade had made it an institution of foreign exploitation. The tendency of the PRC toward isolation from the capitalist world economy between 1949 and 1978 may be understood in this light. Actual fluctuations in trade policy during this period were far more complex than this brief characterization suggests. At various points during this period trade with the west was expanded and contracted in response to changes in internal conditions.

The Third Plenum of the 11th Central Committee of the CCP in 1979 is normally accepted as the point at which official sanction was given to the Open Door strategy. Under this new policy Chinese officials announced they would be "actively expanding economic cooperation on terms of equality and mutual

⁸³Murphey, R., "The City as a Center of Change: Western Europe and China," Annals, Association of American Geographers, Pennsylvania, Vol. 7, No. 4, 1953.

benefit with other countries, and would be "striving to adopt the world's advanced technologies and equipment."⁸⁴ Levels of trade with the West will still have to be substantially expanded before true interdependence can develop. To the extent that the total size of a country's foreign trade tends to be positively related to income per capita and negatively related (on a percentage basis) to the size of the economy, measured either by GNP or by population, China should not be expected to trade very much. Perhaps most important is the applicability to the Chinese economy of the doctrine of comparative advantage which underpins the liberal theory of mutual benefit through trade. According to the neo-classical version of this idea, usually attributed to Ricardo, the following five benefits should accrue to any domestic economy (including a state-trading one):

1. Technological diffusion, which contributes to the economic welfare of all peoples.
2. A demand or Keynesian effect on the economy that, through the operation of the "multiplier", stimulates economic growth and the overall efficiency of the economy.
3. Benefits for individual firms as trade increases the size of the market, promotes economies of scale and increases the return on investment while also stimulating the overall level of economic activity in the economy as a whole.
4. An increased range of consumer choices.
5. Reduction in the costs of inputs such as raw materials and manufactured components, which then lowers the overall cost of production.

Serious theoretical consideration followed in a 1980 article in a Chinese social science journal which was the first

⁸⁴Ho and Huenemann, op. cit., pg. 14.

to assert that Ricardo's theory, "long regarded as bourgeois apologetics has a "rational kernel" because it provides an insightful explanation of the possibility of saving social labour through international division of labour."⁸⁵ What remained was to adapt this kernel to a Marxian theory of international value through dialectical discourse.

The Chinese have experimented cautiously with liberal economics in the trade arena with mixed results. Foreign trade has grown faster than domestic production. The percentage share of total trade and exports relative to the gross output value of agriculture and industry rose from 8.05% and 3.83% in 1980 to 11.2% and 5.38% respectively in 1984. Ricardian theory predicts a comparative advantage for China in the manufacture and export of heavy industrial exports such as simple standardized machinery and tools such as sewing machines. As a share of manufactured products in total exports these products rose from 10.4% in 1978 to 22% in 1983⁸⁶.

Problems developed in 1984-85, however, which cast doubt in many Chinese planners' minds as to the efficacy of trade liberalization based on the law of comparative advantage. The issue is complicated by many factors such as the present international regime of floating exchange rates, a productivity gap between domestic production of manufactured products and

⁸⁵Woo Tunoy and Tsang Shuki, "Comparative Advantage and Trade Liberalization in China," Economy and Society, Vol. 17, No. 1, February 1988, Routeledge, Great Britain, pg. 22.

⁸⁶Ibid, pp. 24-25.

imports, and a rapidly rising aggregate demand. It was more profitable for Chinese trading enterprises to increase imports than to increase production of exports, causing the value of imports to rise rapidly while that of exports declined in 1985.⁸⁷

The debate is still heated in China. The possibility of China being exploited and becoming dependent on developed economies, as is predicted by theorists of unequal exchange, has powerful political implications. Pursuing the alleged advantages of liberalized trade on the Ricardian model is predicated on allowing a degree of market freedom to operate which inevitably creates inequalities in the distribution and consumption of wealth. This is precisely the case in China, where the populations of the Special Economic Zones in which trade and manufacturing for export is primarily conducted, are enjoying a substantially higher per capita income than the rest of the country.⁸⁸ The coastal regions are becoming integrated into the world economy through central government policy. Provinces in the less developed interior are recipients of aid from the central government and international agencies while the SEZ's compete, thus creating a dual economy. Canada deals with China on both levels. Aid is extended through the Canadian International Development Agency (CIDA) and

⁸⁷Ibid, pg. 25.

⁸⁸Globe & Mail, June 24, 1988, "Disparities a Strain on kChinese Body Politic."

nongovernmental aid organizations while trade is pursued at both the governmental and private levels.

The notion of complementarity between the economies of China and Canada may be addressed in two different ways. The first approach is based on the complementarity of product mix. Canada's historical and geographical imperatives have elevated the need for, and therefore expertise in, transportation and communication technologies to a prominent position. China still faces severe bottlenecks in these sectors as well as shortages of trained managerial and technical personnel. The physical infrastructure and personnel training requirements of China's proposed development projects match Canada's strengths well. To reach even the modest development goal which China has set of a national annual per capita income of 3000 yuan (\$1000 CDN) for its 1.1 billion people will probably require a massive infrastructure development program to service an industrial base capable of creating this amount of wealth.

The second approach assesses the place of the two states in the world political economy. The insights of the world system theorists offer a valuable framework in the form of the core, semi-periphery and periphery concepts. As discussed above, a modified version of this framework is still useful after detaching the thesis of structural dependency and adding the World City perspective. Within this framework Canada, for example, may be usefully conceptualized as a geographically

large zone within the U.S. economy.⁸⁹ China, also territorially large, occupies a relatively small economic space on the semi-periphery of the East Asian economy centred in Tokyo. China's enormous economic potential and political pursuit of autarchic policies have kept it from being economically absorbed or dependent on any other power as Canada has been. Nevertheless, they are both roughly equivalent in economic distance from the cores of economic activity: the U.S., Japan and Western Europe. Both states may be conceptualized as being on the semi-periphery of the world economy.

E. Conclusion

Although the emerging WPE differs in many ways from older forms of the capitalist world economy this should not be taken to mean that transnational capital has not had a profound impact in the past on global economic organization. The historical development of both China and Canada were substantially altered by 19th century British MNC's attempts to enlarge the scope of their trading activities. The expansion of the capitalist world economy in the period of British imperial dominance acted as a connective force between China and what is now Canada. The mythology of the nation-state promotes the idea that states are expressions of cultural

⁸⁹Glen Williams, "Canada's Place in the International Political Economy", Studies in Political Economy, No. 25, Spring 1988, pg. 109.

unity and communitarian ideals. This view should be tempered with an appreciation of the impact of capital on their formation and subsequent political development.

In China's case the complex historical divisions which led to the creation of the ROC may be at least partially attributed to the conflict between competing ideologies, based on the conflict between capital and labour, although this greatly simplifies a complicated history. Hong Kong was detached from China by national might in order to facilitate international trade. These "political" divisions are of declining relevance in Pacific Basin trade. What is more important, from Canada's point of view, is how the interdependence among the three economies will affect trade. Hong Kong is a substantial component of Canada's Pacific trade (See Table II) although absolute trade figures do not reflect its importance as a "gateway" to the PRC. While Canada has a desirable trade surplus with the PRC, we have trade deficits with Hong Kong and Taiwan. What will the trade picture look like in 1997 when Hong Kong returns to Chinese jurisdiction? While simply aggregating trade figures for Hong Kong and the PRC is obviously insufficient to account for the complexities of the mode of integration which will occur in 1997, it is interesting to note that it roughly balances out the terms of trade with Canada, theoretically an optimal solution. If Taiwan continues to expand its investment in the PRC how will this dynamic relationship alter the equation in the Pacific Basin?

The differences between the structure of Canada's economy and that of the PRC illustrate the relationship between "openness" in the world economy and high utilization of modern modes of production. Industrialization and urbanization are complementary aspects of an open trading policy. While complementarity in trade can be based on national differences such as these, it is not at all clear that replication of western-style industrialization and an open trading policy will best serve China's interests. The Chinese are still cautiously experimenting with these ideas and getting mixed results. How, and indeed if, they choose to integrate themselves into the world trading system will determine the structure of their relationship with Canada.

Chapter IV The Politics of Trade and Investment Promotion

Before moving on to describe municipal programs aimed at promoting trade and investment, related activities undertaken at the senior levels of government will be outlined. The aim is twofold: to demonstrate the high level of government involvement in international trade, and to illustrate the radical inequality of means to promote localized development among the different orders of government.

A. Federal Trade Initiatives

The Canadian national government promotes trade and investment in a multitude of ways. This section of the paper addresses one specific area of its trade and investment promotion activities, that related to the China trade. This is not only of national import but of singular interest to British Columbia and Vancouver. These activities may be divided into three broad categories: services, diplomatic and financial.

Services which Ottawa provides for the private sector and junior levels of government include: the publication of trade journals and sector reports, statistical information, participation in trade missions and fairs, and preparation of project tender bids. These services are usually free and

available to virtually any Canadian who requests them.

Diplomatic activities include: establishment of representative offices at the consular or embassy level (the embassy in China, as in most other countries, has an active commercial section), negotiation in multilateral economic fora with the interests of Canadian traders in mind, conducting bilateral negotiations and signing agreements which stimulate trade, and using aid programs to enhance Canadian commercial possibilities. The "tying" of aid to trade has been formalized within the Canadian International Development Agency (CIDA) by CIDA's requirement that materials and services required for assistance projects in China come primarily from Canada, and the establishment of the Business Cooperation Branch in 1984, which promotes Canadian business activity in developing countries, principally through long-term cooperation with local partners.⁹⁰ This policy is implemented by the branch's Industrial Cooperation Division (CIDA INC.) and projects must be shown to benefit Canadian business as well as meet CIDA's economic development criteria.

Financial activities with a view to promoting trade take on a vast variety of forms and constitute the most important type of governmental assistance. In terms of funding, export financing is the major component of federal export promotion efforts in China. The Export Development Corporation (EDC)

⁹⁰Globe & Mail, September 13, 1988, "CIDA Changes Its Asian Programs So They Aid Canadian Business."

provides financing for most types of Canadian exports to China (including turnkey projects, capital equipment sales, technology transfers, training programs, and management service contracts), usually in the form of supplier credits, or sometimes in buyer credits, in which EDC funds a separate agreement between exporter and buyer. The terms which EDC sets in its financing agreements are constrained by arrangements which Ottawa has negotiated with the major OECD countries, which all agree to offer financing at "consensus rates".

These and related activities aimed at national economic development are guided in part by principles of regional economic development which have emerged from negotiations with the provinces. These principles were explicitly stated in an intergovernmental position paper of June 1985. The "first and most important principle" states that:

The goal of more equal economic opportunity is consistent with stronger economic growth for the country as a whole. Efforts to reduce (regional) disparities through sound economic development are an investment for future prosperity and increased self-reliance for each region. They strengthen the unity of the country.⁹¹

Both orders of government pledge, in this document, to cooperate, consult and discuss economic development policies with one another and to recognize the need for complementarity in their approaches. Within the federal government, the Cabinet Committee on Economic and Regional Development is the

⁹¹Government of Canada, "Intergovernmental Affairs Position Paper: On the Principles and Framework For Regional Economic Development." June 1985.

focal point for federal regional development policies. This body and "every department and agency within both orders of government" in theory must judge all major national policies in terms of their regional impact and aim at fair and balanced regional development. To this end ministers meet regularly, both on a multilateral and bilateral basis to review regional economic concerns.

B. Provincial Activities

Like the national government, but unlike the municipalities, provinces are able to plan long-term economic and trading strategies. In the most recent Throne Speech to the British Columbia Legislature, Lieutenant-Governor Rogers made the following points: that his government will continue to pursue the development of "trading zones" to encourage export-oriented industrial development; that legislation will be introduced to strengthen development of Vancouver as an International Financial Centre; and that private sector trading house activity will be encouraged to help market and sell BC products and services around the world. Toward these ends a draft White Paper will be produced in 1988 outlining a long-term strategic plan for the province which will "lay out government's economic and social objectives for the decade," and which will be "comprehensive -- yet flexible enough so BC

can respond to external forces.⁹²"

This outward looking posture is complemented in the same speech with a list of complaints about BC's place within the federal structure. BC's "share of federal resources and spending remains disproportionately low" and we have "seen too many inequities," "BC's efforts have been given minimal support by the Federal Government," and the province will therefore "monitor and evaluate BC's standing within the federal system," "identify shortcomings in the Federal-Provincial system" and "make public...an evaluation of our status and treatment within Confederation."⁹³ Fed-bashing is very much the style of the present provincial leaders.

These two elements of BC policy, an increasingly global perspective on trade and investment matters and ongoing hostility to a perceived bias in favour of Central Canada on the part of the federal government, reflect much of the motivation behind the style of BC's international relations. While provincial pursuit of an attenuated form of "foreign policy" is prompted, and indeed made possible by the fact of world-wide complex interdependence, the particular form of "paradiplomacy" which Victoria practices is determined to a great extent by the nature of BC's place in the Canadian federation.

⁹²Opening Speech of the second session of the 34th BC Parliament, by Lt. Governor R.G. Rogers, March 15, 1988. Mimeo.

⁹³Ibid.

By tradition Canada, like most federal states, reserves final authority over foreign relations to the central government. This does not mean that the provinces have not always been free to pursue certain of their interests abroad. Section 92 of the Constitution Act of 1867 granted the provinces powers to borrow money, manage provincial lands (and thus resources), create municipalities, license activities, incorporate local firms, and have authority over all matters of a "local nature".

The 1982 Constitution Act did not significantly alter the status quo in federal-provincial power sharing in the realm of foreign relations. With this lack of clear constitutional authority and the extensive range of powers which have de facto accrued to the provinces, an adversarial relationship between the centre and provinces was bound to develop.

Kim Nossal lists four "distinct, but not unrelated interests" which may propel provincial governments into international activities.⁹⁴ These are constitutional, functional, bureaucratic, and socio-economic interests. These provincial interests must be defended against the "national interest" which in federal theory as practiced by Canada is defined primarily by Ottawa, but with provincial assistance. As a result, consultation with the provinces, if not direct input on the latter's part into policy formation, becomes a

⁹⁴K. Nossal, The Politics of Canadian Foreign Policy, Prentice-Hall, Scarborough, 1985. pg. 192.

prerequisite for the maintenance of harmony in the federal structure.

If Ottawa pursues a confrontational line with the provinces, as was sometimes the case during the Trudeau era (for example, with Alberta over energy pricing, or with the western provinces over the Federal Investment Review Agency), it puts the federal arrangements under a great deal of strain. "Western alienation," which plays a significant role in defining BC intergovernmental politics, is usually blamed on alleged federal intransigence. On the other hand, too accommodating a position, such as critics of the Meech Lake accord accuse Ottawa of adopting, gives rise to fears that coherent national policies cannot be formulated and implemented. The constitutional interest is thus present in the potential for conflict which is a structural component of the "Canadian compromise," based on constitutional imprecision and shared sovereignty.

The second of Nossal's categories concerns the functional interests of the provinces. These activities arise in large part because of the geographical location and the "mundane but functional needs of consultation and coordination with other governments" that proximity to other jurisdictions entails. Most of the actual, day-to-day international activities of BC are of this type. Therefore the overwhelming majority of these transgovernmental linkages are bilateral contacts with US states which border on British Columbia. Functional

arrangements take three forms. Agreements, the most formal and therefore constitutionally significant type, are concluded by premiers and upper-level provincial officials. Understandings refer to "correspondence, resolutions, communiques and memoranda that are not jointly signed but nonetheless set forth regularized procedures" between provinces and states and are normally negotiated, or at least concluded, by ministerial-level officials. Informal procedures involve periodic consultations without anything being put into writing and are normally negotiated by lower-level officials, bureaucrats or technical specialists.

The third category of provincial motivation, bureaucratic interest, is particularly difficult to assess because the question of which comes first -- the bureaucracy or governmental interest -- appears to take the form of a syndrome. Increased governmental interest in international matters generates the need for a bureaucracy to perform transgovernmental functions; at the same time bureaucratic capability and expertise prompt more extensive external activities. There is evidence which links bureaucratic growth with increased international activity of the provinces. Provincial bureaucracies have grown steadily over the last 25 years and the more highly developed of these (including BC's) in many ways approach their federal counterparts in expertise and sophistication.

BC government officials comment that the structure of the

bureaucracy tends to develop similar patterns to the federal model.⁹⁵ While it would be going too far to suggest that the BC external relations establishment merely imitates, or is a mirror-image of the federal bureaucracy, the federal reorganization of External Affairs in 1982 has certain resonances in the BC restructurings of 1985-87. Both were responses to the heightened role of foreign economic relations in world affairs, i.e. to external stimuli, as well as a need to increase the efficiency of communications in an increasingly competitive, complex and interdependent environment.

The final category of provincial interests, socio-economic imperatives, explains the greater part of BC's non-regularized international activity. It was demonstrated above that the majority of transgovernmental linkages were functional in nature, arising from geographical proximity to and interdependence with, the US. While this is a reflection of the diversity of functional interests and the quantity of transgovernmental transactions, it does not structure them according to their relative importance to overarching provincial interests.

In Canada the provinces share responsibility with the centre for economic development; that jurisdiction has virtually demanded transgovernmental relations in a country

⁹⁵Based on interviews with B.C. government officials, especially Kimberly Cooke, lawyer and policy analyst for the Trade Policy Branch, B.C. Ministry of Economic Development, April 10, 1988.

profoundly dependent on exports and trade. Ottawa's historical relegation of such international economic activity to secondary importance in foreign affairs allowed provincial capabilities to develop to the point where the central authorities now have a legitimate cause for concern. It is, however, very likely too late for the federal government to reverse this trend without going to extraordinary lengths. Ottawa therefore seeks to cooperate with, co-opt and sometimes assist the provinces in their economic endeavors, while at the same time working to ensure that Canada speaks "with one voice" abroad.

C. Municipal Activities

Expo 86 firmly established Vancouver as a city ready to assume a primary role in the emerging network of the Global Cities that will decide the economy of the future. -Gordon Campbell

The larger municipal governments across Canada have had economic development offices for decades, but the nature and scope of their activities is undergoing something of a sea change. Three of these changes are worthy of note. First, the traditional emphasis on attracting outside investment is being increasingly supplemented by attempts to build on the economic bases they already have by assisting growth from within the community. This activity usually takes the form of "incubators", in which local entrepreneurs have their rents partially subsidized by the city. They are also provided with

low-cost consultants, experienced business executives and professionals paid by the city. Canadian cities generally do not provide financial inducements in the form of free land or tax breaks, methods which are common in the US, but in Canada these are practiced only by the senior levels of government.

Secondly, municipal officials make a point of attending trade shows and other business functions to make contact with firms which might invest in, or buy products produced by, the locality. Thirdly, these officials work through and exploit the advantages of the sister city (or Twin City) programs which have been developed.

The Vancouver Economic Development Office (EDO) is a municipal agency, staffed by professional economic development officers, and charged with realizing the objectives of economic development according to principles and strategies devised by municipal council. The economic development objectives of council (circa April 1986) are to "strengthen" Vancouver as: a domestic and international service, industrial and tourism centre; centre for research and development and the knowledge industries; and as a major regional, national and international gateway for transportation/communication and trade. The first principle of the city's economic strategy is to 'build on Vancouver's comparative advantage in the regional, national and international setting (i.e. location, major facilities and

infrastructure, embodied expertise, etc.).⁹⁶ Policies and programmes are aimed at enhancing Vancouver's image as a trading, business and tourism centre and are oriented toward areas "where there is a clear "niche" for City action (i.e. avoid costly overlap, strive for complementarity with private sector, community and senior government agencies)."⁹⁷ To these ends the "good offices" of the Mayor and Council and the city itself are used as a catalyst for development, acting on perceived commonalities of interests, e.g. in Port and Airport development, bringing management and labour together, and the like.

Economic and trade missions have been a feature of Vancouver's economic strategy for a number of years and are normally coordinated by the EDO. On Sept. 1, 1987 these activities were amalgamated with the Sister City Program, which "twins" Vancouver with Odessa (1944), Yokohama (1965), Edinburgh (1977), Guangzhou (1984) and Los Angeles (1986). The "friendship" relationship upon which the sister cities program was founded has explicitly been enlarged to encompass economic relationships. These transnational links are now subsumed under the Strategic City Program, a program which "identifies several key cities in the Pacific Region and envisages a

⁹⁶Report to Vancouver City Council, Standing Committee of Council on Economic Development, October 31, 1985, Appendix 2, "City of Vancouver Economic Goals, Objectives and Principles." Mimeo, Economic Development Office, City of Vancouver.

⁹⁷Ibid.

combination of economic missions, trade missions, and cultural missions to, from and through them." Although Odessa and Edinburgh are not Pacific cities, they have been retained on the basis of longstanding relationships established under the old sister city program. The Strategic City program also includes eight cities outside Canada which Vancouver is not twinned with, all located on the Pacific Rim: Tokyo, Osaka, Shanghai, Chongqing, Hong Kong, Kuala Lumpur, Singapore and Bangkok.

During 1985 and 1986 integration of the Economic Development Strategy and the Sister City program began on an ad hoc basis through the development of their relationships with Guangzhou and Los Angeles and quickly produced positive results. They are the top priority cities for the EDO, because they best fulfill criteria for selecting strategic cities. These criteria are that they:

1. Complement the priorities of the federal government's trade development program, i.e. maintain market share, increase value added, encourage investment and enhance Canadian technology growth.
2. Provide a discernible and significant niche for the Vancouver business community.
3. Have potential as gateways to other cities and national and regional economies, with particular emphasis on the Asia-Pacific area.
4. Possess organizations with a desire to foster cultural and commercial relations, and
5. Have the potential for generating frequent personal contact between a considerable number of Vancouver and overseas business people.⁹⁸

For a detailed assessment of all strategic cities see Table

⁹⁸Ibid.

III.

In a city manager's report to council recommending adoption of the Strategic City program the city manager based his arguments on the need for the program by saying that,

it is generally acknowledged that most of the important decisions concerning world trade and investment are made through a network of cities with international stature. Vancouver is a junior member of that important network and aspires to become Canada's gateway for the Asia-Pacific Region and a bridge between Asia, North America and Europe.⁹⁹

Municipal officials have identified Vancouver being on the secondary level of world cities discussed above, and pursue economic development strategies based on the identification of comparative advantages within an integrated transnational framework. The identification of economic sectors and characteristics in which Vancouver has a comparative advantage forms the basis for policy initiatives.

Data for studying metropolitan comparative advantages are notoriously difficult to find. An example of this is Port of Vancouver commodity shipment data which pertain to the export of goods through the port without specifying where the goods were produced and which entirely ignore shipments of commodities from metropolitan Vancouver to the rest of Canada. Estimates must therefore be constructed largely on the basis of location analysis, supplemented by broader, qualitative considerations of the Vancouver economy, including an appraisal of selected non-economic location factors.

⁹⁹Ibid.

As an important port in an open trading economy, Vancouver would be expected to derive substantial revenue from trade activities. This is indeed the case as an examination of employment figures disaggregated by sectors shows that over 20% of CMA Vancouver workers are in the trade sector, second only to

services. The estimated value of exports originating in British Columbia amounted to 12.7 billion dollars in 1986, many of which were transhipped through Vancouver. There is a recognized need in the EDO for policies that modernize and enhance the competitiveness of the seaport and its operating procedures. The rapidly growing role of air cargo is also seen to require the expansion and modernization of the cargo handling facilities at the Vancouver International Airport.

Vancouver municipal officials are attempting to promote a number of projects which build upon the city's comparative advantage in the emerging Pacific Rim economy. A comparative location quotient analysis of eight cities including Vancouver concluded that

Vancouver's comparative advantages (are) overwhelmingly established in the service sectors. In particular, the city has developed significant advantages in transportation and communication activities, a phenomenon undoubtedly attributable in large part to the city's strategic location on the Pacific Rim. The city's advantages extend as well into the activities of trade, finance, insurance and real estate, which further enhance Vancouver's potential major role in the post-industrial future of

the Asia Pacific Basin.¹⁰⁰

In the emerging information (or "transactional") world economy Vancouver's time-zone location, which enables communication to take place simultaneously with Tokyo and New York during working hours, is also considered to be an advantage worthy of exploitation. This "time-bridge" phenomenon is also being successfully touted by Los Angeles as "a big advantage in an era of 24-hour financial markets."¹⁰¹ Vancouver's location on the Great Circle Route to Asia places the city strategically on all major air and sea routes from North America to Tokyo, Seoul, Hong Kong, Taiwan, Shanghai and Singapore.

Cultural, historical and economic linkages with the Asia Pacific region are exploited through a network of institutions which are expected to act synergistically to create advantages in understanding and functioning within the Pacific Basin. The Asia Pacific Foundation, UBC Institute of Asian Research and complementary units at Simon Fraser University and the University of Victoria constitute a significant concentration of research and teaching facilities specializing in cross-disciplinary Asian Pacific research.

The global city literature makes frequent mention of the

¹⁰⁰Michael Goldberg and Craig Davis, "Determination of the Comparative Advantages of Vancouver as an International City." Unpublished paper. July 1988, UBC.

¹⁰¹Globe & Mail, August 9, 1988, "L.A.: Shrugging Off the Smog."

"quality of life" criterion, both for corporate location and investment purposes. This is the area which civic officials have the greatest role. Cultural activities such as the Asia-Pacific Festival, the Sun Yat-sen Classical Garden, museums, the performing arts and the like, are believed to enhance the attractiveness of Vancouver for commercial investors. They also serve the secondary purpose of promoting an outward looking global view within the community itself. Programs in Japanese and Chinese language and culture are therefore encouraged by the municipal government, although their ability to provide incentives is limited to the activities of local school boards which must conform to certain provincial requirements. Broadly based community support for the creation of an international city is another important consideration.

The extent to which any human settlement becomes global in scope depends, in large part, on its citizenry. This globalization occurs only when the permanent residents of the community are convinced that attracting regional offices and corporate headquarters is essential for the city's future survival and growth. Communities that attempt to globalize without co-opting the participation of its permanent citizenry court trouble.¹⁰²

Modern medical and health facilities provide significant potential for future exploitation in promoting Vancouver as an international city. This has been especially important in relation to China. An agreement between a Vancouver hospital and a Guangzhou hospital, concluded by civic officials, exchanges personnel and technologies thereby strengthening ties

¹⁰²Heenan and Perlmutter, op. cit., pg. 112.

between the two cities. The greatest local success story in the China trade is a health sector manufacturer, Quadra Logic, which has enjoyed phenomenal growth based on sales of pregnancy-testing equipment in Guangzhou. The deal was put together with the help of the EDO, which acted as a self-described "marriage-broker". EDO officials accompanied the president of Quadra Logic to Guangzhou on several occasions.

Municipal trade missions have a solid institutional foundation in the strategic city program. Consideration is now being given to joint trade fairs with other cities in the program (in particular Los Angeles), and other joint activities such as tourist promotion packages are being discussed. While the short-term benefits are obvious, they also have a longer-term goal of establishing on-going working relationships with officials in the network.

Cultural linkages are of fundamental importance to direct city-to-city negotiation across national borders. Vancouver has a special advantage in this way with its long history of contact with China. One of the original links, the importation of Chinese labour for building the transcontinental railroad, with all its overtones of racial discrimination, has fortunately been largely forgotten, or at least is not discussed. It marked the beginning of continued Chinese emigration to Vancouver, however, and the city's population of Chinese descent is now substantial. While it may be premature to talk of the "Asianization" of Vancouver, the current levels

of investment by overseas Chinese investors, extensive business contacts with the large numbers of Hong Kong alumni of British Columbia universities, and the recent "twinning" with Guangzhou, all point to substantial cultural linkages with China.

In October of 1985 civic involvement with Guangzhou was given a boost when a provincial crown corporation requested municipal assistance. During a council meeting

The Mayor advised that officials of the B.C. Telephone Company have requested Alderman Yee accompany them to Guangzhou as the Company is hoping to be awarded a contract of two million dollars for a telecommunications system in a new suburb of Guangzhou. CARRIED UNANIMOUSLY.¹⁰³

This led to a mayoral visit the following year, described as being "quite important" by EDO officials¹⁰⁴ because of the Chinese perception that official approval of commercial transactions ensures that the terms of a contract will be fulfilled. While discussions with enterprise chairmen are important, as they enjoy substantial power these days, mayor-to-mayor contact also matters, in great measure because "we share many common problems; in that sense we speak the same language."¹⁰⁵ It should be noted that these events do not require liaison with provincial authorities. The approach of

¹⁰³Minutes of City of Vancouver Regular Council Meeting, October 22, 1985, pg. 3.

¹⁰⁴Interview with C. McGuiness, development officer, July 16, 1988.

¹⁰⁵Interview with Gordon Campbell Sept. 12, 1988.

provincial and municipal officials to economic development differs substantially and relations between responsible officials at the two levels have often bordered on hostility.

Civic officials take a supply-side approach in their efforts to attract the corporate tenants necessary for integration into the global network of cities. The most important demand of transnational capital, political stability, can best be addressed directly by the federal government and thus escapes the municipal purview. An examination of 16 factors affecting corporate choice of regional office locations however (See Table IV), shows that a close second to political stability is the quality of supporting services. In the public sector this refers to highly developed transportation and communication infrastructure and high quality education and health services. In the private sector, supporting services refers to legal, accounting, marketing and finance resources and expertise. Interestingly, tax and related incentives were ranked 15th out of the 16 categories by MNC executives.¹⁰⁶ Several studies clearly indicate that location incentives: tax holidays, subsidies and low interest loans have at best only a slight influence over plant location decision, and even less influence over a move of headquarters.¹⁰⁷ The propensity of provincial governments to engage in the "buying" of corporate tenants in this manner is not necessarily appreciated by civic

¹⁰⁶Heenan and Perlmutter, op. cit., pg 111.

¹⁰⁷Ibid.

governments.

E. Conclusion

Changes in the structure of the world economy: "globalization" of markets, increased interdependence, and the like, have elevated the need for cities to understand that their economic futures are contingent on international events to an unprecedented degree. Because international relations have traditionally been the preserve of national governments, the nearly universal tendency has been for citizens and junior levels of government to assume that their interests are best served by subordination of local concerns to the national interest as defined by the centre. (In the case of Canada, this statement must be modified to read that the national interest is defined by the federal government in consultation with the provinces.) In order to maintain national unity, of course, the state implements distributive and redistributive economic policies leaving local government officials in the position of expending much of their political energies petitioning for their "fair share" of national wealth.

This political structure profoundly distorts the geographical and economic determinants of trade. If we perform the mental exercise of temporarily erasing national political boundaries from the globe and observe the network of commodity exchanges among the towns and cities of the world we can see that state borders do influence the pattern of trade flows. In

terms of economic efficiency the patterns would appear to make very little sense. If we reintroduce the dimension of military power to this mental map the world system would no longer have a network of cities as its nodal points but rather nation-states. Political boundary-making is almost universally a military or legal-diplomatic event.

The discontinuity between these two forms of human organization may be pulling civic governments in two different directions. The hegemony of security issues in international relations has ensured that the city cannot bargain effectively with either the state or the corporation. Thus civic officials and citizens alike lack a self-consciousness of themselves as part of a local political community which is a nodal point in a world network of local, politically organized communities. On the other hand, the exigencies of global economic change require that cities take an increasingly international perspective if they wish to flourish. This perspective may engender a consciousness of their largely unexploited bargaining power, based on urban centrality in the world economic system.

Conclusion

The time when municipal officials could fulfill their responsibilities for local economic development by being passive recipients of federal and provincial programs may be drawing to a close. If they wish to prosper by joining the global network of cities they must actively pursue economic strategies, land use policies and marketing programs which allow them to take advantage of emerging trends and opportunities in the global economic system. Although they are the most appropriate actors to perform this role in the the emerging WPE they are institutionally incapable because of their constitutional and fiscal dependence on senior levels of government. The limited scope of the programs described in Chapter IV illustrates the direction that the changing structure of the world economy forces to cities to move in, as well as the constraints on their ability to respond to these changes imposed by the nature of the state system.

The discontinuity between the logics of the two systems has created an incipient vacuum for political power. The state has the institutional capacity to act internationally, but national imperatives, for example regional development or military commitments, may force national governments to adopt policies detrimental to the welfare of cities, and therefore,

ultimately, of the state. By depriving cities of the political power to optimize their economic development within an international context they reserve to themselves the right to perform functions for which they are institutionally unsuited. The Westphalian state is a "square peg in a round hole" when it comes to the nurturing of local economic development. As a method of human organization it was designed for different purposes.

If the historical development of the WPE continues in the direction described in earlier chapters, this contradiction between the inappropriateness of the present institutional structure and the universal need for economic growth could lead to demands for political actors better suited to the latter task. Many would say that the state will never relinquish its hold on any form of power. The deconcentration of power occurring in China at the present time indicates that this is not necessarily the case. While the Chinese reformers are clearly responding to domestic needs, some of the restructuring is equally clearly a response to the exigencies of the international economy. It may not only be possible, but necessary for the national good for the state to withdraw somewhat from the sphere of international economic relations. Thus a political vacuum would be created which cannot be filled by transnational capital, nor by international labour. Nor is the prospect of world government very likely. Devolving power to provincial-level units is politically dangerous as

secessionist movements are not far below the surface in as number of states. Within the present state system the only political association which offers a viable and appropriate alternative is the city.

The major cities of the world have become nodal points in an emerging economic system. This system, based on a complex matrix of socio-economic transformations which may be subsumed by the phrase "globalization of the world political economy," is superimposed over a relatively static system of territorial states. This paper has argued that a dialectical relationship exists between these competing forms of human organization, and that the "stress" points in their interaction are locationally grounded in the system(s) of world cities. Thus these world cities have a dual but contradictory aspect, being integrated along both functional and territorial lines.

The interests of those cities whose mode of production tends to integrate them into the world economy, and the interests of the nation-states in which they are situated, are simultaneously united with and opposed to the interests of multinational corporations that are the principal actors in the world economy. The interests of city and state, it has been argued, are similarly both united and opposed. Thus the structure of the WPE is determined by the relations of these three highly interdependent actors who must co-exist in an uneasy and dynamic equilibrium. The politics of trade and economic development peculiar to this WPE would be obliterated

of course if nation-states reasserted the primacy of "conventional" international relations through interstate economic or military warfare. If the trends of the last few decades continue, however, this model may provide some insight into the tectonics of history-in-the-making.

The transboundary actions of municipal officials with foreign governments and MNCs obviously cannot yet be construed as having more than a very minor impact on international economic relations. What I have proposed, alternatively, is that these transnational contacts, were they to expand substantially in the coming years (and there is every indication that they will), could have very interesting effects in the realm of intergovernmental and international relations. The precise form of political consequences consonant with the logic of the framework developed here will require further research to uncover.

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PROPOSED 1987 - 1989 STRATEGIC CITY INITIATIVE PROGRAM AND COST ESTIMATES⁽¹⁾

	1 9 8 7		1 9 8 8		1 9 8 9	
	<u>Vancouver As Host</u>	<u>Vancouver As Visitor</u>	<u>Vancouver As Host</u>	<u>Vancouver As Visitor</u>	<u>Vancouver As Host</u>	<u>Vancouver As Visitor</u>
1. Los Angeles	May Business/ Cultural Mission \$1,000	Sept. re: 1988 mission Oct. re: Caltech Forum \$1,000 ea. ⁽²⁾	Business/Cultural Mission \$2,000	Business/Cultural Mission \$5,000 ⁽³⁾	Business/Cultural Mission \$2,000	Business/Cultural Mission \$5,000 ⁽³⁾
2. Yokohama/ Tokyo/ Osaka	VIPs (5) Trade Mission(5)	Nov. Economic/Trade Mission \$20,000 ⁽³⁾	VIPs (5) Trade Mission (5)	Economic/Trade Mission \$20,000 ⁽³⁾	VIPs (5) Trade Mission(5)	Economic/Trade Mission \$20,000 ⁽³⁾
3. Guangzhou	VIPs (5) Trade Mission(5)	Nov. Friendship delegation & trade mission \$25,000 ⁽³⁾⁽⁴⁾	VIPs (5) Trade Mission(5)	Trade Mission \$15,000 ⁽³⁾	VIPs (5) Trade Mission(5)	Trade Mission \$15,000 ⁽³⁾
4. Hong Kong	VIPs (5) Trade Mission(5)	Mayor's visit in assoc. with #3 (\$ incl. in #3) ⁽³⁾	VIPs (5) Trade Mission(5)	Business mission assoc. with HKCBA of Vancouver in assoc. with #5 \$10,000 ⁽³⁾	VIPs (5) Trade Mission(5)	Mayor's visit in assoc. with #3 (\$ incl. in #3)
5. Singapore	VIPs (5) Trade Mission(5)	-----	VIPs (5) Trade Mission(5)	Trade mission to incl. either Bangkok or Kuala Lumpur \$15,000 ⁽³⁾	VIPs (5) Trade Mission(5)	Trade mission to incl. either Bangkok or Kuala Lumpur \$15,000 ⁽³⁾
6. Odessa	-----	-----	-----	-----	-----	-----
7. Edinburgh	-----	-----	-----	-----	-----	-----
8. Miscellan- eous	VIPs Trade Missions \$ 15,000	-----	VIPs Trade Missions \$15,000	-----	VIPs Trade Missions \$ 15,000	-----
TOTALS	<u>\$ 16,000</u>	<u>\$ 46,000</u>	<u>\$ 17,000</u>	<u>\$ 65,000</u>	<u>\$ 17,000</u>	<u>\$ 65,000</u>

NOTES: 1) Private sector members pay all their own expenses
 2) EDO staff members costs only
 3) Costs for Mayor and one EDO staff member, plus receptions, gifts and miscellaneous

4) Plus three other city representatives to be guest of Guangzhou while in China
 5) Costs included in #8

TABLE I

Table II

Country	Canada	Canada
	Imports	Exports
	(000's)	(000's)
Hong Kong		
1984	\$966,199	218,823
1985	886,820	334,012
1986	1040,967	315,167
PRC		
1984	\$333,502	1,236,477
1985	403,475	1,278,477
1986	566,594	1,100,278

Source: Statistics Canada, Imports by Country and Exports by Country, June-Dec. 1984, June-Dec. 1985, June-Dec. 1986.

TABLE III

ASSESSMENT OF VANCOUVER'S RELATIONSHIP WITH SELECTED CITIES

	Accords with Federal Priorities	Potential Niche for Vancouver Businesses	Potential niche as Asia-Pacific Gateway	Keen Organi- zations Exist	Frequent Personal Contact Potential
Guangzhou*	●	●	●	●	●
Yokohama*	●	●	●	●	●
Tokyo	●	●	●	●	●
Osaka	●	●	●	●	●
Los Angeles*	●	●	●	●	●
Odessa*	0	0	0	0	0
Edinburgh*	0	0	0	0	0
Shanghai	●	●	●	0	0
Chongqing	●	●	0	0	0
Hong Kong	●	●	●	●	●
Kuala Lumpur	●	0	0	●	0
Singapore	●	●	●	●	●
Bangkok	●	●	0	●	●

LEGEND

- = Strong
 ● = Emerging
 0 = None at this time
 * Denotes Vancouver Sister Cities

TABLE 1

OVERVIEW OF VANCOUVER'S SISTER CITY RELATIONSHIPS

	Broad Based Society	Private Sector Commit- ment	Sister City Keen (comm & cult)	Alder- manic Support	Frequent Contact	Commercial Ties Growing	Cultural Ties Growing	EDO Support
Guangzhou	●	●	●	● ¹	●	●	●	● ²
Los Angeles	●	●	●	● ¹	●	●	0	0 ²
Yokohama	●	●	●	●	●	0	●	●
Odessa	0	*	●	0	*	*	0	0
Edinburgh	0	*	0	0	*	*	0	0

Legend: ● in place/yes 0 uncertain
 ● growing * lacking
 0 emerging

1. In place during formative stage
 2. EDO resources are stretched to the limit,
 especially regarding following-up.

Overview of 1985 and 1986 Sister City/Economic and Trade Mission Programs

	1985		1986		Visit Results		Degree of Interest		Remarks
	Vanc'r As Host	Vanc'r As Guest	Vanc'r As Host	Vanc'r As Guest	Commercial Projects (incl. medical)	Cultural Projects	Vancouver Community	Other City	
*Guangzhou	SETt	ST	SE	TTT	●	●	●	●	Good Prospects
*Yokohama	--	S	S	--	0	●	●	●	Good Prospects
*Osaka	--	--	--	--	--	--	●	●	Good Prospects
Tokyo	--	E	--	--	0	0	●	0	Good Prospects/Im- portant Int'l. HQ
*Los Angeles	--	--	S	T	●	●	●	●	Good Prospects
*Odessa	--	--	S	--	0	0	●	●	Unknown Prospects
*Edinburgh	--	--	S	--	0	0	●	●	Unknown Prospects
Shanghai	--	--	T	T	●	0	●	0	Montreal Link
Chongqing	--	--	T	--	0	0	0	0	Toronto Link
Hongkong	--	E	G	ETT	●	0	●	●	Special relation- ship/good prospects
Kuala Lumpur	--	E	--	--	0	0	0	0	Long Term Prospects
Singapore	--	E	T	T	0	0	●	●	Good Propsects/Key to ASEAN Business
Bangkok	--	--	--	T	0	0	0	0	Long Term Prospects

LEGEND

S = Sister City Delegation
T = Trade Mission**
E = Economic Mission
t = Technical Mission
G = Government Mission

LEGEND

● = many
● = several
0 = uncertain
* denotes Vancouver Sister Cities
** (company to company focus)

LEGEND

● = strong
● = some
0 = weak

TABLE III (B)

TABLE IV

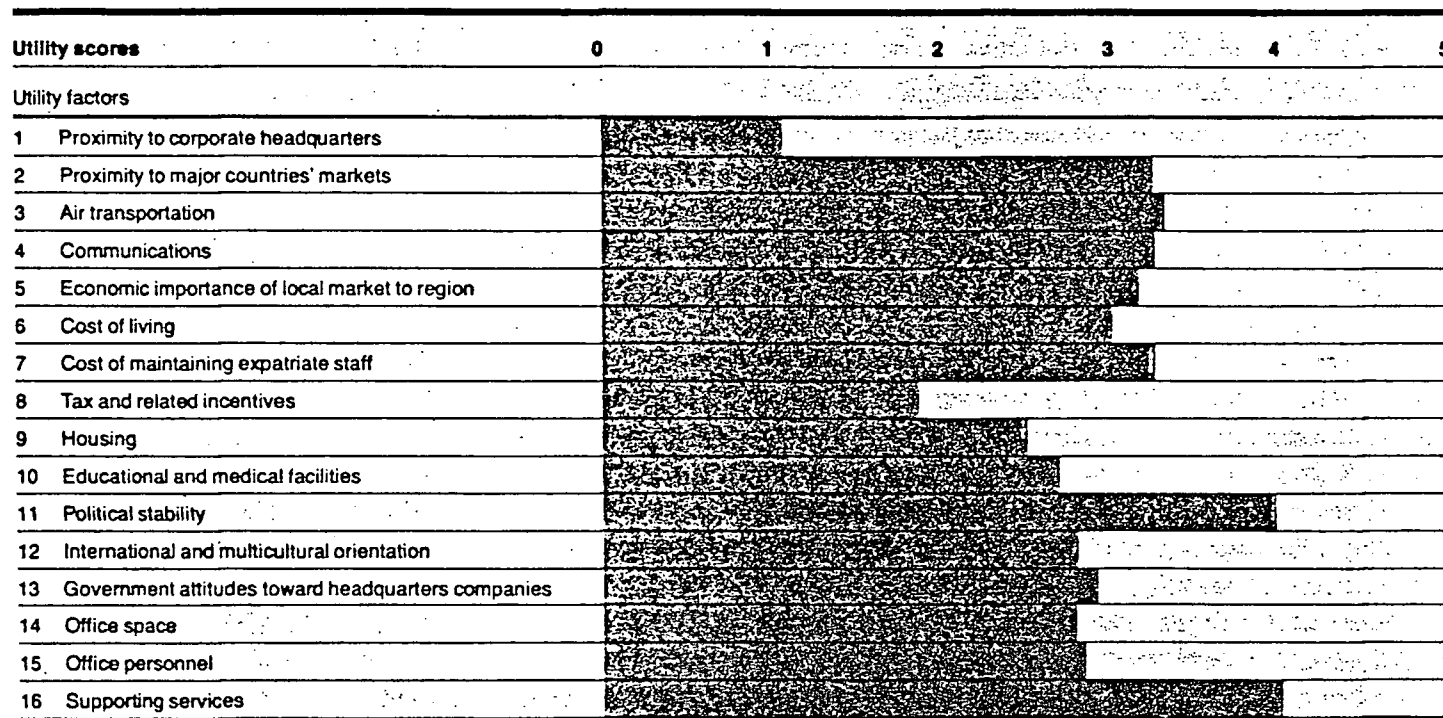


Fig. 6.2 Factors affecting the choice of regional office cities. (From David A. Heenan, "Global Cities of Tomorrow," *Harvard Business Review*, May-June 1977, p. 85. Copyright © 1977 by the President and Fellows of Harvard College.)