

Economic Analysis of Law Review

Divided China in Internationalization: Paradiplomacy and Sub-National Autonomy as a Transforming Phenomenon

A Divisão da China na internacionalização: Paradiplomacia e subnacional autonomia como um fenômeno de transformação

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RESUMO

Este estudo se concentra em como a internacionalização da economia da China é atingido pelas províncias nível sub-nacional, através de laços políticos internacionais dos governos provinciais. A revisão teórica sobre a reforma económica, internacionalização e descentralização autoritária revela o papel activo desempenhado por províncias chinesas na arena internacional. Uma análise das relações políticas internacionais mostra que os governos provinciais chineses têm sido atores dinâmicos no processo de promoção do crescimento económico e de comércio exterior, com base na evidência de que muitos governos sub-nacionais de países selecionados em todo o mundo têm incluído governos provinciais chineses em sua estrangeira estratégias comerciais. Os resultados destacam o quadro institucional da política chinesa, e oferecem implicações gerenciais para gestores e formuladores de políticas que lidam com a China.

Palavras-chave: China; descentralização; internacionalização; Investimento estrangeiro direto; Política estrangeira; Governo subnacional

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ABSTRACT

This study focuses on how China's economic internationalization is achieved by the sub-national level provinces through the provincial governments' international political ties. A theoretical review on the economic reform, internationalization, and authoritarian decentralization reveals the active role played by Chinese provinces on the international arena. An analysis of international political ties shows that Chinese provincial governments have been dynamic actors in the process of promoting economic growth and foreign trade, based on the evidence that many sub-national governments from selected countries around the world have included Chinese provincial governments in their foreign trade strategies. The findings highlight the institutional framework of Chinese politics, and offer managerial implications to managers and policy makers dealing with China.

Keywords: China; Decentralization; Internationalization; Foreign Direct Investment; Foreign Policy; Sub-National Government

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1. Introduction

A lot have already been told and published about the way China has gone global. China is currently the second largest economy in the world after the U.S. Internationally speaking, China is the largest exporter and the second largest country in terms of foreign trade volume in the world (Yao and Liu, 2012). After nation-wide reform and the establishment of the open-door policy in 1978, the country has experienced rapid growth. According to Yao and Liu (2012), China's GDP was 10.5 percent of world total and its foreign trade volume was 10 percent of world total in 2011, whereas when China gained membership in the WTO in 2001, the GDP was only 4.2 percent of the world's total and its foreign trade volume was only 2 percent of the world's total. During 2001-2011, China's foreign trade increased by around 20 percent since its accession to the WTO (Yao and Liu, 2012). China's foreign trade statistics during 2001-2011 is reported in Table 1.

Table 1: China's Foreign Trade Statistics 2001-2011 (Source: Yao and Liu, 2012)

<i>Year</i>	<i>Trade (\$bil)</i>	<i>Growth (%)</i>	<i>RMB/\$</i>	<i>GDP (Trillion RMB)</i>	<i>Real Growth (%)</i>	<i>Trade/GDP (%)</i>
2001	510	7.5	8.28	10.97	8.1	38.5
2002	621	21.8	8.28	12.03	9.5	42.7
2003	851	37.1	8.28	13.58	10.6	51.9
2004	1,155	35.7	8.28	15.99	10.4	59.8
2005	1,422	23.2	8.19	18.49	12.0	63.0
2006	1,760	23.8	7.97	21.63	12.7	64.9
2007	2,177	23.6	7.60	26.58	14.2	62.2
2008	2,563	17.8	6.95	31.40	9.6	56.7
2009	2,208	-13.9	6.83	34.05	9.2	44.3
2010	2,974	34.7	6.77	40.12	10.4	50.2
2011	3,642	22.5	6.45	47.16	9.2	49.8

The study is organized as follows. First, it presents a theoretical review of the Chinese economic and institutional transformation in the last decades, taking into account the role played by the Chinese provinces and their political efforts. Second, by analyzing the international political ties between Chinese provinces and foreign political entities, it describes the institutional framework in which the Chinese provincial governments influence China's international business landscape. Last, it summarizes the role of sub-national regional governments and offers insights into crafting trade and political strategies for building business partnerships with the emerging economic power, China.

2. Theoretical View From Political Economy Perspective

2.1. Internationalization And Authoritarian Decentralization in China

The expansion of foreign trade is a reflection of China's increasingly apparent pattern in international business—the “going global” movement. In the past two decades, China has already received a tremendous amount of inward FDI, making China gain the status of world's manufacturing hub, especially for multinational companies. On the other side, China's outward FDI has increased dramatically. The Chinese central government has accrued a large foreign exchange reserve in recent years. An important element of China's “go global” strategy is about its overseas investment (Wei, 2010). From 2000 to 2010, China's outward FDI has increased almost twenty times (Wei, 2010). According

to Ernst and Young Global (2012), China's outward FDI was estimated to be US\$74.65 billion in 2011 with an increase of 8.5 percent from the past year. By the end of 2011, China's total outward FDI reached US\$424.78 billion, accompanied by 18,000 enterprises overseas across 177 countries with a total asset value of US\$2 trillion (Ernst and Young Global, 2012). In 2010, China became the fifth-largest global investor, a position ahead of Japan and the United Kingdom (Yao and Liu, 2012).

This study focuses on the sub-national perspective of China's international trade framework. The central argument is that Chinese paths toward internationalization have been accompanied, and in a certain way supported by, an internal process of authoritarian decentralization that has enabled provincial governments to become direct international players with active roles in shaping China's economic foreign policy. It shows how at a regional or provincial level, international trade is demonstrated to be a driver to regional economic growth in China, especially in inland provinces (Li, Chen, and Wang, 2010; Gries and Redlin, 2011; Jiang, 2012). The sub-national level governments in China have been dynamic actors in the process of promoting economic growth as well as foreign trade and investment. Barbieri, Sarcina, and Bazzucchi (2013) found a positive and significant relationship between provincial policies and business performance in China. Due to the fact that business performance can be influenced by provincial policies, the sub-national governmental policies and actions are crucial in the promotion of trade and investment in China. Other studies strongly support this finding (Melchior, 2010; Zhao, 2013), showing that the economic development and globalization in China is highly dependent on the planning efforts by Chinese sub-national governments. Chinese provinces not only help to shape China's foreign trade policy by providing channels and implementation, but also have developed extensive international networks (Chen 2005). In recent years, the provincial governments have set up foreign liaisons and operations to help local businesses expanding overseas (Chen and Jian, 2009).

2.2. Sub-National Activism

The economic internationalization process in post-Mao China started with Deng Xiaoping's economic reforms in the late 1970s, which opened the coastal Chinese provinces to the foreign trade and investment (Chen, 2005). Since then, the Chinese provinces possess some new roles at the international level. The new roles are featured by provincial programs and activities in the area of foreign trade and investment, which are parallel to Chinese central government's economic foreign policy making and implementation (Bueno, Lima, and Almeida, 2013). For example, the Provincial Office of Foreign Affairs (POFA) in Shanghai Municipality (as a provincial entity) coordinated joint commercial activities with 61 sister cities or sister provinces in 47 countries, and received official missions of 23 foreign heads of state in 2003 (Bueno, Lima, and Almeida, 2013).

In addition, the Chinese provinces often influence the central government's economic policies through the National People's Congress (NPC), the most powerful policy making organization in the unitary system of China (Bueno, 2012). According to Chen (2005, p. 13), "the provinces achieve certain level of influence over the central government policy, including the general direction of the China's foreign policy, and substantial content of the foreign economic policy." Politically, representatives from the provinces formed a large bloc at the national decision making level in the country's main deliberative organs (Saich, 2001; Bueno, 2012), indicated by the large number of provincial party secretaries appointed in the Politburo.

One good example is Guangdong Province in South China. The first two Special Economic Zones of China (SEZs), Shenzhen SEZ and Zhuhai SEZ, were created in Guangdong Province. With a

master plan to transform the province to a major export center in the world, Guangdong province has its own provincial plan for economic reform and international economic collaboration, authorized by the central government and the State Council. Guangdong Province's economic success in the 1990s has shown the political effort at the provincial level significantly promotes regional economic revitalization in China, and consequently led the Communist leadership in Beijing to embrace reforms and policies favoring internationalization and economic liberalization.

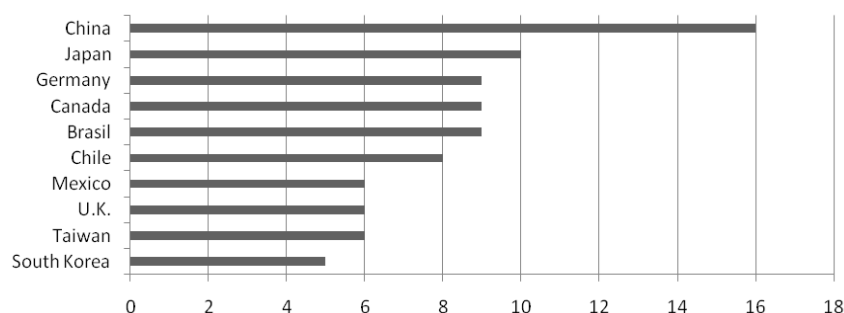
Inside each Chinese province, mechanisms dealing with international trade, investment, and collaboration have been established. According to Bueno, Lima, and Almeida (2013), main initiatives toward having provincial involvement at the international level are through the provincial programs that attract foreign investment and promote exports from the province. These programs often involve educating domestic enterprises for exporting or foreign trade, conducting foreign market research, and developing provincial capacity in hosting foreign companies coming in for trade and investment. Other important activities include the provision of technical support to provincial departments in their internationalization and international collaboration, as well as the establishment of overseas offices with the aim of attracting foreign direct investments (Bueno, Lima, and Almeida, 2013). Shown to be effective, the maintenance of such overseas offices at the provincial level is referred to as "informal diplomacy" (Chen, 2005; Cheung and Tang, 2001; Bueno, 2012; Bueno, Almeida, and Lima, 2013), in contrast to formal diplomatic relations at the country level.

3. Analysis of International Political Ties For Chinese Provinces

Chinese provinces built their relationship with foreign governmental entities and agencies through a variety of political ties. The U.S. state governments are among those non-central governments that have taken Chinese provincial governments into account in a very especial way. For example, the direct involvement of Governors in international missions is one of the most relevant aspects of U.S. state governments' engagement. A Georgetown University and University of Brasília Survey in 2010 on U.S. state governments' global activity (GU/UnB Survey, 2010) has shown that the United States' State Governors and lieutenant Governors' major motivation was to lead trade delegations to China when dealing with trade relationship with China. This motivation was indicated by 88% of the responding states, while the remaining 12% indicated "political relations" as the first motivation for international travel of their governors to China (GU/UnB Survey, 2010). Some states also highlighted the relevance of cultural interchange as a way of opening doors for businesses entering China. The state of Hawaii, for instance, pointed out the interaction of the state government with a cultural organization, named Chinese People's Association for Friendship with Foreign Countries, which has representatives in all Chinese provinces (GU/UnB Survey, 2010). After a period of cultural interchange intensification, trade missions to Chinese provinces have been more successful (Bueno and Almeida, 2011; Bueno, Almeida, and Lima 2013). The GU/UnB Survey (2010) shows U.S. state governors tend to visit Chinese provinces more preferentially than the traditional trade partners such as Japan, Germany, Canada and Mexico (See Figure 1).

Figure 1: Number of International Missions by U.S. Governors in 2008

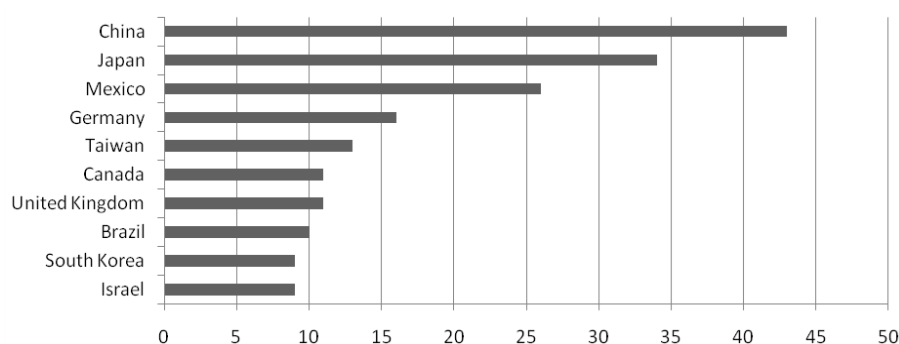
(Source: GU/UnB Survey, 2010)



Another way of seeing the weight of Chinese provinces is by taking into account U.S. state governments' overseas offices based in China. Remarkable in the history of the U.S. states' international engagement, the main task of these overseas offices is to seek potential foreign investors and to identify export opportunities (Bueno, 2012). In 2008, the U.S. states maintained 245 offices in 34 countries. Among them, 43 are in different Chinese provinces, forming sub-national political ties between U.S. states and Chinese provinces (See Figure 2).

Figure 2: Number of Overseas Offices by U.S. States in 2008

(Source: GU/UnB Survey, 2010)



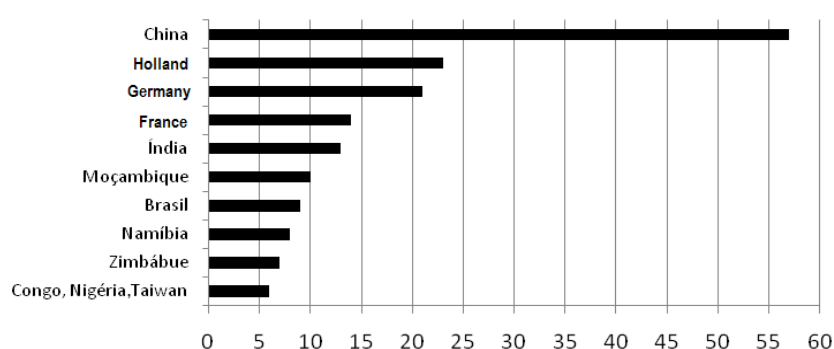
With 43 offices located in its different provinces, China tops the list of countries with highest number of U.S. state overseas offices. Some U.S. states established two, three, or four offices in this emerging country, mostly placed their representation in cities like Beijing, Shanghai, Guangzhou and Hong Kong. At the same time, other states have succeeded in establishing offices with low cost in the Chinese provinces by running shared offices. For example, the Eastern Trade Council Office represents several states in the northeast U.S. Even Japan, a traditional U.S. trading partner, is ranked after China when the U.S. states established representative offices overseas, possessing 34 U.S. overseas offices in its territory. Chinese provinces are in a position even higher than U.S. neighbors, Mexico and Canada.

Japanese sub-national governments, the prefectures, have also included Chinese provinces as part of their international business strategy. Actually, the sub-national government level collaboration has already been recognized as one of the areas of increasing engagement between Japan and China (Jain, 2004). The three major types of linkages that Japanese prefectures have developed in China are formalized sister relationships between sub-national governments, trade and investment promotion, and technical and economic cooperation (Jain, 2006).

South African provinces are another good example of the way some of the most dynamic emergent countries have treated Chinese provinces as partners. South African provincial governments have signed a large number of province-to-province partnership agreements with Chinese provinces (Bueno, Lima, and Almeida, 2013). Among all the agreements signed with sub-national governments in a total of 57 countries in the world (See Figure 3), Chinese provinces earned the highest number of political ties. Altogether, the different Chinese provinces have signed 57 of the total of 291 existing partnership agreements. That leaves Chinese provinces far ahead of other sub-national governments from countries that the South African provinces have stronger historical ties, such as the Netherlands, Great Britain, and other European countries. In this respect, the analysis of the empirical data highlights the political efforts by Chinese provinces on the international arena.

Figure 3: Number of International Partnership Agreements of South African Provinces

(Source: Bueno, 2012)



4. Conclusion and Recomendations

The most important finding that is derived from the analysis of international political ties is that Chinese provinces have been becoming influential actors on the international ground. Although China obviously remains a unitarian political system and an authoritarian regime, it has established a mechanism for its provinces to “go global”. Among other factors, this movement is based on a moderate degree of non-democratic decentralization that pushes the provinces up to meet the world for their own economic benefits. A set of empirical evidence shows that China’s process of internationalization has been accompanied by an equally important process of decentralization. Even undertaken by authoritarian means and totally dependent on the central government’s willingness, such decentralization had in fact enable Chinese provincial governments to play an important role in the country’s foreign policy making and implementation related to foreign trade and investment.

The findings offer important managerial implications to managers and policy makers. Since China is the world second largest economy with a long period of high growth rate, currently many sub-national governments from both developed and developing countries take Chinese provincial governments into account as international actors who can affect their business at macro- and micro-levels through trade, investment, and other types of exchange. Chinese provinces’ proactive movement toward greater international involvement and stronger international political ties should be well understood by managers and policy makers who are engaged in trade and investment with China.

Chinese provinces provide a unique channel for foreign companies and political entities when dealing with the bureaucratic Chinese central government. Compared to the central government, provincial governments are more flexible, economically-focused, and prone to change. Provincial leaders

and the various provincial departments are also more approachable by foreign entities due to the rank. By working with them directly, trade and investment initiatives are more likely to become operationalizable and profitable. Thus, positive trade relationships, especially sub-national partnerships, tend to occur when the political ties are strengthened.

Various stakeholders should also note that, more importantly, Chinese provinces' international engagement, in the form of provincial policies and efforts for international political ties, is subject to Chinese central government's foreign policy and economic scheme (Segal, 1994). It is fundamentally different from a federal states system in terms of decision making (Michelmann, 2009; Bueno and Almeida, 2012). With the consent from the central government, the provinces are allowed to manage their own institutional mechanism and organs that enable some direct interaction with the outside world. We should not lose sight of the People's Republic of China as a unitary state and as such, every provincial power comes from the central power and can be removed if it is not in line with the central power. Accordingly, the content of provincial policies related to external political ties may be legitimately nullified by the central power. Therefore, managers and policy makers must understand the limited level of decentralization in China and the narrow-sense of international engagement by Chinese provinces.

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