

# CROSS-CURRENTS



## EAST ASIAN HISTORY AND CULTURE REVIEW

### *The Transformation of China's Urban Entrepreneurialism: The Case Study of the City of Kunshan*

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#### **Abstract**

This article examines the formation and transformation of urban entrepreneurialism in the context of China's market transition. Using the case study of Kunshan, which is ranked as one of the hundred "economically strongest county-level jurisdictions" in the country, the authors argue that two phases of urban entrepreneurialism—one from the 1990s until 2005, and another from 2005 onward—can be roughly distinguished. The first phase of urban entrepreneurialism was more market driven and locally initiated in the context of territorial competition. The second phase of urban entrepreneurialism involves greater intervention on the part of the state in the form of urban planning and top-down government coordination and regional collaboration. The evolution of Kunshan's urban entrepreneurialism is not a result of deregulation or the retreat of the state. Rather, it is a consequence of reregulation by the municipal government with the goal of territorial consolidation.

#### **Introduction**

There is no doubt that local authorities the world over play a crucial role in promoting economic development in the context of globalization (Harvey 1989; Brenner 2003; Ward 2003; Jessop and Sum 2000). On the one hand, globalization may cause huge unexpected job loss when investors decide to shut down their companies and move out. Capital flight may also create opportunities in a different site. To deal with these challenges and opportunities, local authorities become entrepreneurial in improving their regions, in the hopes of accommodating more business investment and attracting more quality human capital. This is what is called "phenomenon of urban entrepreneurialism."

Scholars of urban entrepreneurship agree that local authorities have transformed two kinds of governance relations. The first relations affected are those among governmental organizations at different or similar scales. In terms of central-local dynamics, local authorities seek more decentralized power and gain strength from the weakening central state (Faguet 2006; Strumpf 2002; Keating and McEwen 2006). Regarding same-level governments, local authorities become very competitive when vying with each other for development resources, such as investments, financial grants, and skilled labor (D'Arcy and Keogh 1998; Cheshire and Gordon 1998; Chien and Gordon 2008). Relations between the state and the market have also been transformed. The state is likely (or forced) to be self-deregulated in order to attract more capital; this is, namely, the neoliberal tendency of state retreat from the market (Harvey 1989; Peck and Tickell 2002).

As specialists of urban China research in the post-Mao era, we generally agree with the existing literature on urban entrepreneurialism and further argue that Chinese urban entrepreneurialism has evolved over time. Certainly, many local authorities have proven themselves to be bold, innovative, and entrepreneurial in the process of China's dramatic economic development over the past three decades (Duckett 1998; Chien 2007; Jin, Qian, and Weingast 2005; Chung 2001; Wu 2000; Qian and Weingast 1996).<sup>1</sup> However, in the empirical case of Kunshan, the most economically globalized and developed county-level administration in the Yangtze River Delta, we witness the formation and transformation of urban entrepreneurialism both in terms of the intergovernmental relationship and the state-market relationship.

The rise of Kunshan (which is discussed below) in the 1980s and 1990s is attributed to the strong interaction between Kunshan and its overseas, especially Taiwanese, investors. The development of the local economy was facilitated by economic devolution and aggressive urban entrepreneurialism. Kunshan managed to break out from the institutional constraints of state socialism and promote further devolution by expanding development zones and developing innovative territorial governing strategies.

However, around 2005 we began to witness the emergence of a more coordinated form of urban entrepreneurialism, with the central government strengthening its control over land resources and the provincial government providing more coordination and encouraging

collaboration between local county-level governments. The city of Kunshan prepared a new master plan to coordinate economic development within its jurisdiction and designated different functional zones to guide town-level governments. In other words, the latest development of urban entrepreneurialism in Kunshan brings back the role of the state, which attempts to reregulate and strategically lead the market. In addition, urban governance is more cooperative with other neighboring administrations under regional coordination by upper-level governments.

This article aims to address the gap in the existing literature on Western cases, which pays little attention to this form of newly evolved, state-reregulated, coordinated, and collaborative urban entrepreneurialism. The rest of the article is divided into five sections. First, we revisit the debate in the literature on urban entrepreneurialism in the West compared with China. Second, we sketch the development of Kunshan in three stages: early industrialization, engagement with globalization, and development of high-tech industries and producer services. In the third and fourth sections, we discuss the first and second phases of urban entrepreneurialism in Kunshan. While the first phase is more territorially competitive, locally initiated, and led by the market, the second phase (starting roughly from 2005) involves more regional cooperation, upper-level government coordination, and leading-the-market practices. Finally, in the conclusion, we reflect upon some theoretical and policy implications.

## **Urban Entrepreneurialism: The West and China**

### *Western Urban Entrepreneurialism and Its Debates*

Urban entrepreneurialism in policy formation and growth strategies has been established as a version of urban governance in late capitalism, particularly in the United States and Western Europe (Jessop and Sum 2000; Harvey 1989; Ward 2003). Local and city governments have started to transform themselves into market-friendly agents whose key goals are to form alliances with more investors to promote local economic development.

Local and city governments become entrepreneurial in three different but interrelated ways. First, the focus of the city agenda shifts from social policies to economic plans (Harvey 1989; Harding 2005). As a result, the function of city governments also changes from delivering social welfare to promoting economic development. Second, different formats of public-private partnership working along with city governments become popular ways of boosting local

economies. Key players include elected politicians, landowners, chambers of commerce, utility developers, local bankers, and others whose self-interest can be realized through these collective actions of urban redevelopment (Harvey 1989; Molotch 1993; Mossberger and Stoker 2001; Harding 1994). Third, practices and discourses initiated by these public-private partnerships are proactive, innovative, and business friendly. City marketing, land-use design, image making, and competition with other localities are all cases in point (Jessop and Sum 2000; Ashworth and Voogd 1990).

### *Local and City Development under China's Market Transition*

Active and entrepreneurial city governments largely drive the transition toward a market economy in post-Mao China. Great policy innovations are made in order to promote local economic development. Urban entrepreneurialism, according to Jessop and others, is an institutional arrangement intended to fix the crisis of Fordism and the Keynesian state (Jessop 1994; Goodwin and Painter 1996). China's urban entrepreneurialism reflects a transition from socialist to socialist-market economy. At the time, the marketization and commoditization of urban services and local business environments were introduced in order to respond to the crisis of state-led socialist development in general and the Cultural Revolution in particular (Chien 2008; Wu 2003; Wu and Ma 2005).

From this perspective, China follows the global trend of urban entrepreneurialism. Within the context of economic and fiscal decentralization, the central government granted power to urban governments to help them build up more infrastructure and attract investments (Ma and Norregaard 1998; Qian and Weingast 1996; Zheng 2007). In addition, urban governments competed with each other in economic development for two reasons. Materially, development can be linked to local cadres' personal pockets in both legal and illegal ways, like local corporatism (see Oi 1995, 1998). Politically, local development can also be related to cadres' career advancement (Chien 2010; Zhao 2006).

However, China's urban entrepreneurialism is also quite different from that of its Western counterparts. Three points should be noted in particular. First, China's motivations for market reform are different. In the West, during the post-Fordist and post-Keynesian transition,

the state was forced to retreat because of neoliberal and market pressures (Wu 2010). On the contrary, many market-preserved and business-friendly policies in China since the 1980s should be regarded as part of the gradual reforms undertaken to fix Mao's inefficient and ineffective centrally planned direct-resource allocation. China's entrepreneurial state is able to more easily shift its attitude at different stages if necessary—from market friendly to market regulated—than its Western counterparts.

Second, the operation of China's political system is different. Western urban entrepreneurialism generally takes place in liberal democracies, where local elections and private property rights are highly institutionalized. However, in China, there is strong party-state leadership in the administration of all spatial scales, from the national, provincial, prefectural, and county level, down to the town and township level. This difference is reflected in different motivations for interjurisdictional competition in the West and China (Chien 2008; Chien and Gordon 2008). In China, the asymmetrical transformation of the political and economic spheres is the main cause of aggressive urban entrepreneurialism. Namely, economic decision making has been decentralized to the localities, while the political system remains centralized and the promotion of cadres is based on evaluations of the economic performance of their jurisdictions. Related to that is the strong capability of the Chinese state as compared with states in the West. Through the centralized political system, local cadres are likely to be under state coordination, as their positions are assigned by the upper governments rather than through local elections. In addition, career local cadres are motivated to follow up evaluation indicators assigned by the upper governments. Some criteria are decisive and have veto power (*yi piao fou jue*), in that cadres would be demoted if they could not accomplish the assigned tasks. In the 1980s and 1990s, these “decisive criteria” were framed in economic terms, such as growth of gross domestic product (GDP), volume of foreign investment, and revenue growth (Chien 2010). Since 2005, “decisive criteria” have included environmental indicators like carbon consumption and land conversion quota violations.

Third, the land ownership system in the West and China is also different. In the West, land may be privately owned, and private property rights are constitutionally protected. However, private property rights are against the core of communist values in China, where land is either owned by the state in urban areas or collectively owned in rural areas (Lin and Yi 2011). Land

can therefore be either a decentralized and territorialized asset manipulated by the local state or a centralized and hierarchical asset operated by the central state (Xu, Yeh, and Wu 2009; Xu and Yeh 2009). Examining the cadre-indicator performance management system, arable land conversion quota without a doubt becomes a key institution that guides and constrains the entrepreneurial behaviour of local officials. Taking these three points together, we argue that China's urban entrepreneurialism features both commonalities with and differences from its Western counterparts. Further, China's urban entrepreneurialism can be particularly characterized as very related to the land (particularly in the second phase; see more below).

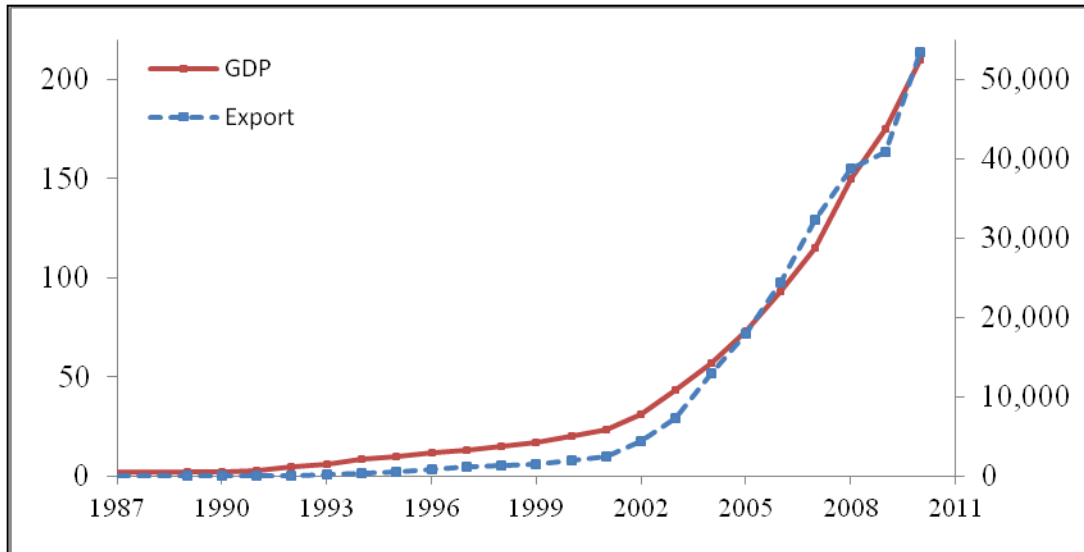
To sum up, we look at the differences between urban entrepreneurialism in China and the West from three theoretical dimensions: first, the type and level of state intervention in the market; second, the degrees to which inter-local state relationships are competitive or collaborative; and third, the mechanism of local state coordination, namely whether the autonomous local states turn completely competitive with one another or are forced to collaborate under pressure from the higher-level government. We use the case of Kunshan, along with other general observations of post-Mao Chinese cities, to examine how and under what circumstances China's urban entrepreneurialism has been formed and transformed. We were involved in the planning of Kunshan as policy researchers and consultants for the city government in 2008 and 2009, and the data we use for this research includes semistructured interviews and written materials collected during that time.

### **The History of Kunshan Development: A Sketch**

Administratively, Kunshan is a county-level city under the Suzhou prefecture-level city of Jiangsu Province. There are four subnational levels of governments in China: provincial, prefecture, county, and town and township. In 2010, China had thirty-one provincial-level jurisdictions, more than three hundred prefecture-level jurisdictions, and around three thousand county-level jurisdictions. Despite its low county-level status, Kunshan generated a GDP of more than 175 billion yuan in 2009 (see figure 1). As one of three thousand counties in China, Kunshan's economic performance was even better than that of some poor provinces like Hainan, Ningxia, Qinghai, and Tibet. By 2010, with only 0.1 percent of the national territory and 0.5 percent of the national population, Kunshan was responsible for 2.5 percent of China's national

trade and 4.7 percent of China's national GDP.<sup>2</sup> Nowadays, Kunshan is often listed as the economically strongest county-level administration (*jinji baiqiangxian*) since 2000.

Figure 1: GDP and Export Performance of Kunshan since 1987



Note: Right axis as export (US\$ 1 million) and left axis as GDP (billion yuan).  
Source: Compiled by author from Kunshan Statistics Yearbook (various years).

Kunshan's economic performance is mainly attributable to notebook computers and related information technology industries, evidenced by the fact that Kunshan produced 50 percent of global notebooks.<sup>3</sup> Notably, Kunshan was an ordinary rural society before 1949. Prior to 1978, Kunshan was still a poor county with agriculture as its main economic sector. Its underdevelopment at the time was captured in the nickname "the little sixth" (*xiao liu zi*), given because its industrial output ranked last of the six counties in Suzhou (Wei 2002; Chien 2007). Kunshan's dramatic development over the past several decades has been an evolving process with three main stages: first, early industrialization in the 1980s; second, engagement with globalization in the 1990s; and third, formation of high-tech clusters and planning for producer service centers in the twenty-first century. Each stage is briefly described below.

*The 1980s: Early Industrialization under Rural Collectivism*

Kunshan successfully initiated its industrialization process through two major policies. First, Kunshan “secretly” built up its industrial district (*gong ye xiao qu*) in 1985 without permission from the central and provincial governments. The district, which later changed its name to the Kunshan Economic and Technology Development Zone (KETZ, *Kunshan jingji kaifaqu*), provided major modern infrastructure in order to attract investors.

Kunshan also took advantage of its proximity to Shanghai to attract domestic enterprises in inner China, like those in the Third Front area (*san xian*). The strategy, called “relying on Shanghai in the East and depending on the Third Front in the West” (*dongyi Shanghai, xituo san xian*), successfully introduced some inland factories that could not afford the high land prices in Shanghai but sought any investment relocation possibility near Shanghai. Those relocated collective factories in Kunshan with horizontal industrial linkages elsewhere included Sichuan Hongyan motor factory, Hubei Huangshi textile machine factory, Guizhou Hongshan ball bearing factory, and Shanghai Jingxing television factory, among others (Yang 1991).

Taken together, the KETZ attracted about seventy factories to invest in 1985, thirty-eight of which were from Shanghai (Marton 1999; Wei 2002). In 1989, KETZ generated 500 million yuan of industrial output, more than the 400-million-yuan average of fourteen state-granted economic and technological development zones (ETDZs). During this stage, Kunshan became one of the most productive development zones in China, despite its low county-level administration and secret status. Its development was mainly due to contributions by the collective sector.

*The 1990s: Engagement with Globalization*

The astonishing productivity of the KETZ was soon discovered by the upper-level governments, whose encouragement and support pushed Kunshan to seek state endorsement to help cope with the difficulty the county faced attracting foreign direct investment (FDI). For example, by 1989, the KETZ attracted only 2 million US dollars of FDI, in sharp contrast to the average of 25 million US dollars of FDI in other state-level development zones. Foreign investors were suspicious about whether or not the KETZ could maintain an appropriate business

environment with its county-level status and had concerns about its secret establishment as well (Wei 2002; Chien 2007).

The June 4 incident in Tiananmen Square in 1989 shocked international investors and raised questions about whether or not China would continue to open up its economy as it had in the 1980s. Deng's 1992 southern tour, plus the Pudong project in Shanghai, sent a strong signal to overseas investors regarding China's commitment to the overall market economy of the nation in general and the Yangtze Delta in particular. In this context, the state council granted the KETZ national status. Li Peng, then prime minister, further openly encouraged other localities to learn from Kunshan—by first developing their own zones and then seeking the state title after obtaining a certain level of achievement. Partly because of its new national status and partly because of investors' faith in China's strong commitment to its open policy, FDI injection in Kunshan grew dramatically after 1992 (Choe, Laquian, and Kim 2008). The FDI in Kunshan came mostly from Taiwan and focused mainly on printed circuit boards, PC connectors, food processing, and the rubber industry (Chen, Melachroinos, and Chang 2010; Chien 2007; Wei 2002).

Taiwanese investment has transformed Kunshan not only economically but also socially, culturally, and politically. Taiwanese investment includes restaurants, karaoke bars, hospitals, banks, and even elementary and high schools, with the result that Kunshan is sometimes called "Little Taiwan." Renovation of Kunshan's Buddhist (*qu hui*) temple, damaged during World War II, was also funded by Taiwanese investors, making it the first Mazu temple in the Yangtze River Delta.<sup>4</sup> With the physical reestablishment and spiritual connection of the *qu hui* temple, Taiwanese investors, managers, and their families are more attracted to the Taiwan-like Kunshan life.<sup>5</sup> Politically, it is believed that the development of Taiwan's Kaohsiung port and Jiangsu's Taicang port and other conveniences, such as direct sail, were initiated after 2008 because of the strong lobbying of central officials by Taiwanese investors in Kunshan (more details below).

Table 1: Comparison of Key Selected Taiwan-Invested Industries in Kunshan:  
1991–1995 and 2001–2005

	<b>Key Industries and Representative Companies</b>
<b>1990–1995</b>	<ul style="list-style-type: none"> <li>- PCB (WUS (Kunshan))</li> <li>- motor vehicle parts and accessories (Liufeng Machinery)</li> <li>- bicycle industry (Giant China)</li> <li>- rubber (Cheng Shin Rubber China)</li> <li>- food processing (Uni-President (Kunshan))</li> <li>- houseware products (Sakura Bath and Kitchen Products)</li> <li>- glass fiber (TG Changjiang Glass)</li> <li>- IT components (Foxconn (Kunshan))</li> </ul>
<b>2001–2005</b>	<ul style="list-style-type: none"> <li>- Notebook PC (Getac Kunshan Computer, Vimax InfoComm Kunshan, Compal Opt. Kunshan; Compal Info Kunshan, Compal Info Tech Kunshan; WJ Info Comm Kunshan; Wistron Info Commom Kunshan; Kunshan Kapol; Twinhead Kunshan)</li> <li>- Glass fiber (Taichia Glass Fiber; PFG Fibre Glass Kunshan)</li> <li>- projectors and optical components (Vimax Kunshan)</li> <li>- motherboard and display card (Micro Unite Kunshan),</li> <li>- epoxy resin and copper clad laminates (Nan Ya Epoxy Resin Kunshan; Nan Ya Electronic Material Kunshan)</li> </ul>

Source: Compiled by author from Chen et al. (2010)

*The Twenty-First Century: The Development of High-Tech and Producer Services Industries*

In the late 1990s, Kunshan faced another development difficulty as the then slow customs service could not meet the demand for fast delivery by global production networks that, for example, required a speedy soft custom infrastructure to satisfy the “955” principle set up by international brand computer companies (Yang and Hsia 2007). For those Taiwanese firms in Kunshan that sought outsource orders from brand computer companies like IBM and Dell, 95 percent of the goods had to be produced and exported within five days of the orders being placed.

This meant that more entrepreneurial state intervention was needed in Kunshan after its initial growth in the 1980s and the early 1990s. After Taiwanese investors in Kunshan arranged many learning-cum-visiting tours to Taiwan (Chou and Lin 2007; Chien 2007; Wang and Lee 2007), whose custom service is well known for satisfying information technology–related production, Kunshan proposed the idea of an export processing zone (EPZ). With the help of the

central government, the Kunshan EPZ was officially in operation in 2001 and soon became a popular zone, attracting more FDI and producing more exports. The world's top five notebook computer companies, all from Taiwan, moved to Kunshan EPZ to establish their production lines (Chen, Melachroinos, and Chang 2010; Lai, Chiu, and Leu 2005; Chien and Zhao 2008). The importance of Taiwan's investment to Kunshan in this period is vividly summed up by the catchphrase "five, six, seven, eight, and nine," meaning that, since the twenty-first century, 50 percent of fiscal revenue, 60 percent of taxation, 70 percent of employment, 80 percent of investment, and 90 percent of export have been generated by Taiwanese investment. However, this success did not come without a cost. For example, more land resources were used at this stage, a warning to Kunshan to review whether or not its pro-business attitudes and manufacture-driven policies were entirely appropriate.

In addition, in 2000, Kunshan decided to develop the Huaqiao Business Zone, which would focus not only on manufacturing but also on service industries, targeting two kinds of service business: back-door offices for the financial sector and domestic logistics centers for Taiwanese investment products. The former aims to respond to the development of Shanghai's financial center, including banking, insurance, and the like, which need nearby, easily accessible office space to back up their information technology data and store hard-copy documents. The second service aims to respond to complaints by Taiwanese companies that want to further develop domestic consumption markets in China but cannot do so without the appropriate marketing channels. With the relationship between Taiwan and China improving after 2008 following Taiwan's election of a pro-China president and the resumption of cross-strait political dialogue that had been stopped for over a decade, Kunshan quickly proposed building up the first comprehensive business center for the Taiwanese. The development of high-tech Information Communications Technology (ICT) industries and producer services in Huangqiao reflects a more mature stage of Kunshan's economy.

### **The Emergence of Urban Entrepreneurialism in Kunshan**

The pre-2005 stage of urban entrepreneurialism in Kunshan was characterized by three features: first, the establishment of locally initiated projects; second, the introduction of the market system; and third, territorial competition as a driving force. These three features share the

common characteristics of deregulation and the retreat of the central state. First, the locally initiated projects involved reforms that were initially implemented by the local government without any permission from the upper-level governments. The action of secretly building up the industrial zone is a case in point. This action needs to be understood as a very risky and bold (i.e., entrepreneurial) policy in the context of political struggle between market-oriented reformers and conservative-minded reformers. In the 1980s, the process of reform in China oscillated between relaxation and opening up to more market mechanisms on the one hand and contraction and reliance on more centrally planned systems on the other (Lichtenstein 1991; Crane 1990; Howell 1993). The leaders of Kunshan were concerned about the possibility of being punished by their supervisors and worried that those who were less enthusiastic about economic expansion might return to power. Therefore, they mobilized strong local support for a self-financed development zone (Chien 2007; Wei 2002). The process of initiating local projects shows that the local state played an entrepreneurial role in promoting the local economy.

Second, the best example of the introduction of the market mechanism is the 1989 land-leasing policy in Kunshan, which was the first county-level administration to charge land-use fees to investors. During Mao's time, land was owned by the state and land-use rights could not be transferred to private investors due to communist principles. However, in 1988, by declaring that land should be recognized as a special commodity, China amended its constitution to separate land-use rights from ownership (Yeh 2005; Wu and Yeh 1997). The central government took the very cautious step of allowing only a few cities to try this policy, which still made some conservatives angry, as they viewed the land-leasing policy as a forfeiture of sovereignty and an insult to the state. Kunshan officials dared to push this market-friendly land policy because they were requested to do so by a foreign investor, who was considering factory expansion in Kunshan but felt uncomfortable building his own new factory on land that was not leased to or owned by him. The business-friendly environment in Kunshan was extremely successful and became a key tool in attracting foreign investment. By 1995, about four hundred land-leasing projects (out of six hundred total) were not with domestic companies but with foreign counterparts. In addition, land-leasing policy became another important financial resource for supplementing the gap between budgetary revenue and the cost of building infrastructure.

Finally, competition among localities pushed Kunshan to be more entrepreneurial. By 2002, around fourteen hundred zones were established by various levels of governments in Jiangsu, Shanghai, and Zhejiang, inevitably resulting in serious territorial competition.<sup>6</sup> Kunshan and some of its neighboring counties under Shanghai used to be competitors when industrial investors, like Taiwan Semiconductor Manufacturing Company, the leading semiconductor play foundry, came to the Yangtze Delta to look for factory locations. Rumor suggested that this is a reason why Shanghai had a project named “173” in the 1990s: to build 173 square kilometers of industrial land to compete with other counties near Shanghai. A local catchphrase, “*yao qi san gan kunshan*” (“173 is for catching up Kunshan”), speaks to the competition between Kunshan and Shanghai’s “border” counties.

### **The Transformation of Kunshan’s Urban Entrepreneurialism**

We argue that urban entrepreneurialism in Kunshan has transformed since 2005. This does not mean that the features we identified in the earlier stage of urban entrepreneurialism—namely, initiation at the local level, the market mechanism, and territorial competition—have completely disappeared. Instead, these features persist alongside new ones: first, a planning mechanism to govern the market; second, coordination by upper-level governments; and third, territorial cooperation. These new aspects show that the Chinese local state in the twenty-first century, while certainly still entrepreneurial, has changed in terms of the state-market relationship, vertical intergovernmental relations, and horizontal interregional relations.

#### *The Development of Planning Mechanisms: The New Master Plan*

Along with its economic growth, business-friendly Kunshan has become more selective toward new investment projects. In the 1980s and 1990s, Kunshan welcomed every possible investment project. However, in 2005, for the first time, the city of Kunshan announced that new investments must fulfill two criteria: a minimum investment intensity of 100 thousand yuan per square meter and completion of the project within two years. The projects that fail to reach this minimum investment intensity and construction timeline are asked to return their land to the city government. The purpose of this regulation is to prevent land speculation by occupying land without substantial investment and production. Moreover, investors are encouraged to increase

their land-use intensities. Office and factory buildings that exceed three floors are waived from some local infrastructure construction fees (*chengshi jianshe fei*). This change shows that urban entrepreneurialism has begun to shift from attracting investment to *selecting* investment. Increasingly, the city of Kunshan has begun to take a more strategic approach to enhancing its economic competitiveness.

In 2008, the city of Kunshan initiated a strategic vision study and subsequently started preparing a new master plan (2009–2030) that would revise its earlier one (2002–2020). The new master plan recognizes the problems of uncoordinated growth and conversion of rural land into industrial uses under rapid urbanization. It aims to provide an overall development framework for the whole jurisdiction of Kunshan, rather than leaving individual town governments to develop their land. The speed of land conversion has been astonishing: as of 2002, the city of Kunshan has grown 24 square kilometers every year, a growth rate of 16 percent of its built-up areas. In 2009, the built-up area of Kunshan reached around 400 square kilometers, almost half of its vast territory of 927 square kilometers (Song 2010). Rapid urban expansion causes the problematic loss of agricultural land. The spatial pattern of land development is scattered, with industrial land development spread over small towns and various development zones set up by town governments. Some ancient towns, such as Qiandeng, Zhouzhuang, and Jinxi, are known for their southern Jiangsu water and town landscapes. But they are now encroached upon by industrial development and scattered development areas.

Although the previous master plan required industrial development to be concentrated in designated industrial zones, in reality industrial development has grown out of control and is scattered over all of Kunshan. The lack of land resources has begun to constrain the future development of Kunshan. Under the national system of basic agricultural protection, 280 square kilometers of agricultural land in Kunshan is reserved for protection, and the development of basic agricultural land is strictly forbidden. Kunshan is a place of water landscapes. The water surface accounts for 176 square kilometers, and the developable land in Kunshan is estimated to be 129 square kilometers. At the current pace of land conversion, this will only provide land for development for the next five to six years. The constraint of land resources means that Kunshan must adopt a smarter and more compact growth approach.

Despite its land constraints, Kunshan enjoys new development opportunities as a result of regional transport infrastructure development. There are three intercity train stations within Kunshan. The new high-speed intercity train from Shanghai reaches Kunshan within twenty minutes on its way to Beijing. The extension of the Shanghai No. 11 metro line to Kunshan also connects the city of Kunshan with Shanghai. The development of the Shanghai Hongqiao hub combined with Hongqiao International Airport, the high-speed train, and metro lines provide greater accessibility to Kunshan. The new pattern of accessibility will have implications for Kunshan's spatial structure, because the urban area near the stations will become very attractive, while scattered developments in smaller towns might not be sustainable.

Faced with land constraints and transport opportunities, the new master plan for Kunshan proposes a pattern of transit-oriented development and requires that new development be concentrated in the areas around the new stations. The new master plan thus designates three new functional zones: a 470-square-kilometer central development zone, a 136-square-kilometer zone of recreational and holiday resorts, and a 321-square-kilometer zone of water landscape and ancient town tourism. The plan requires that major future development be located within the central development zone where the three stations are based, with the other two zones being protected from industrial and land development. The new master plan also suggests that, in order to implement the plan of functional zones, the performance of officials should be evaluated differently in these areas. Under urban entrepreneurialism in the past, officials were mainly evaluated by their achievement of GDP growth rates. Now, for town governments within the designated zone of recreation and tourism, the key performance indicators will emphasize environmental protection and greening over economic growth rates.

The preparation of a new Kunshan master plan and the promulgation of a development framework show that the city is trying to move away from its earlier development approach, which used cheap land to attract investment and speed up local economic growth. The new approach emphasizes that some areas of the city-region should be protected and used for postindustrial functions, such as recreation and tourism. In a departure from previous master plans, the new master plan proposes a series of key performance indicators (KPIs), including some new indicators such as research and development expenditure in GDP, the Gini coefficient to measure household social inequalities, unemployment rates, per-capita GDP energy

consumption, and the coverage of forest and green spaces. While it is not clear how these KPIs would actually be enforced, they do reflect an effort by the city of Kunshan to transform its earlier sole emphasis on GDP growth rates. The new master plan reflects the transition of Kunshan from dominant industrial development to a more comprehensive approach to development. The new master plan was honored as the best urban and rural plan in the nation in 2009. Whether the master plan can be successfully implemented in the future depends on the progress of economic restructuring from an economy dominated by manufacturing industries to one with balanced industries and services.

### *Territorial Cooperation*

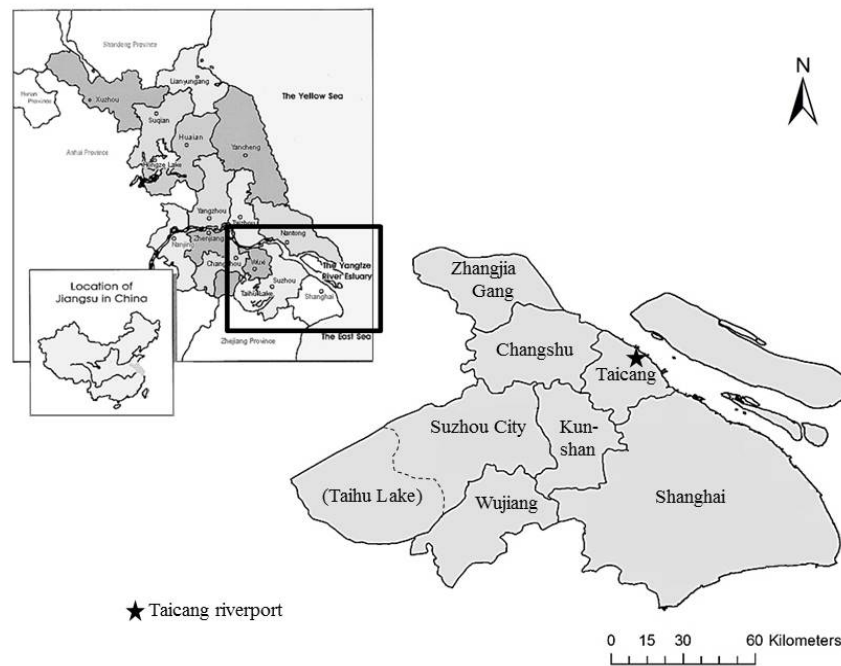
Territorial cooperation between neighboring or transborder administrations is another important characteristic of the second phase of entrepreneurial governance, which reflects the changing attitude of local governments that are beginning to understand the weakness of the race to the bottom in territorial competition. In the case of Kunshan, two examples of territorial cooperation are particularly illustrative. One is the cooperation between Kunshan and Taicang, both of which are located in the Suzhou administration; the other is the cooperation between Kunshan of southern Jiangsu and Shuyang of northern Jiangsu.

Geographically, Kunshan is not situated along a coastline or riverbank and therefore has no seaport or river port, a disadvantage for the development of export-oriented industries. Over the years, Kunshan has relied on the Shanghai seaport and the Suzhou river port to process the customs documentation needed to transport and trade goods to and from Kunshan. However, with the development of Shanghai and Suzhou, the workload of these customs services has been close to maximum capacity. Kunshan was no longer satisfied with the slowness and inconvenience of the ports in Shanghai and Suzhou and was eager to seek an alternative.

Taicang, another county-level administration under Suzhou, is situated close to the Yangtze River and has the only river port in Suzhou (see map 1). The Taicang river port became Kunshan's favorite, not only because of its nearby location but also because of its unique status in cross-strait relations. Although there had been some economic interaction between Taiwan and mainland China in the 1980s, it was not until 2008 that the first direct ocean-shipping service was established between Taiwan and China. Prior to 2008, Taiwan's goods were forced to ship

to China via third points like Isigaki (Japan) and Hong Kong. In November 2008, a few months after a pro-unification president was seated in President Hall, the first four ports in China were opened up for direct shipping lines to Taiwan. These four were Shanghai, Fuzhou, Tianjin, and Taicang; the former three are seaports facing the Pacific, and Taicang is the only river point along the Yangtze River. Further, Taicang Customs was empowered with the establishment of the Taicang-Taiwan Free Trade Zone.

Map 1: Kunshan in the Wider Context of the Yangtze River Delta.



Source: Compiled by the author.

The direct shipping line between Taicang and Taiwan provides cheaper and quicker transportation that benefits many Taiwanese companies investing in China, including those in Kunshan.<sup>7</sup> Recognizing this advantage, Kunshan further cooperated with Taicang under the concept of “Kun-Tai Links” (*kun tai lian dong*). In 2009, KETZ and the Taicang river port also built up a zone-port joint meeting (*qu gang shuang bian hui yi*), which institutionalized cooperation between Kunshan and Taicang. Through this cooperation, Kunshan was able to offer

a more convenient trade and transport environment to its Taiwanese investors, and Taicang was able to promote its economy with more Taiwanese investors using the river port service.<sup>8</sup> Such Taiwan-oriented territorial cooperation, which enables the win-win development of an export economy with Taiwan without any formal restructuring process of the administration, stands in sharp contrast to previous territorial competition.

The second example is Kunshan's cooperation with Shuyang by means of so-called pairing assistance between south Jiangsu and north Jiangsu (*sunan subei duikou zhiyuan*). Shuyang is a county under Suqian, a prefecture-level city in northern Jiangsu. Jiangsu Province is divided by the Yangtze River into southern and northern parts. Historically, southern Jiangsu was more developed than northern Jiangsu. And with the advantage of being closer to Shanghai and the rise of township and village enterprises, southern Jiangsu cities were able to develop more quickly than their northern counterparts. The gap between the north and south widened further over the past two decades. In order to solve the problem of increasing disparity within the province, Jiangsu's provincial government initiated a south-north pairing assistance system in 2001, with southern prefecture-level cities put in charge of assistance to specific northern prefecture-level cities. Under this pairing system, Suzhou is paired with Suqian. At the county-level administration, Kunshan (in Suzhou) is responsible for the developmental assistance of Shuyang (Suqian).

Interestingly, the Kunshan-Shuyang pairing system does not represent a purely one-way flow of aid from developed areas to underdeveloped regions, but is actually a "mutual benefit" program for both sides. Material mutual aid is not necessarily given and taken in equal quality or quantity but in forms that each side needs the most. For example, in the Kunshan-Shuyang Pairing Assistance Cooperation Memorandum (*kunshan shi yu Shuyang xian duikou bangfu guagou hezuo yixiangshu*), Kunshan agreed to offer financial and material aid to Shuyang, such as providing cadre training programs, organizing certain business marketing activities, purchasing more agriculture products, and creating more employment opportunities. In return, Shuyang agreed to help Kunshan by "lending for free" its unused land conversion quota.<sup>9</sup> Such land quota transfer is crucial for Kunshan, where the government faces the challenge of a lack of development land. In 2002, Kunshan was ranked second among the top hundred economically strong county-level administrations. One reason Kunshan fell from its top ranking in 2001 was

its inefficient use of land resources, showing the serious problem of land shortages for further economic development.

Land conversion quota is a “hard” performance indicator assigned by the Ministry of Land and Resource in Beijing to ensure that the absolute quantity of farming land should not fall below a set limit. Every administration has a minimum quantity of farmland that must be preserved and is not allowed to be transformed into construction sites for any kind of nonagricultural development. As an economically strong county-level administration, Kunshan obviously has converted a great deal of its agricultural lands for various industrial uses and therefore has encountered the prospect of having no more land to offer for further investment if no other quota can be found (Long et al. 2007).<sup>10</sup>

On the contrary, Shuyang, like many relatively less developed cities, has a surplus agriculture land-use quota, and ample construction areas are still available to meet development demands. Shuyang used its surplus as an advantage to ask Kunshan to provide development assistance. In order to use the quota “virtually” released from Shuyang, Kunshan promised to move at least two investment projects to Shuyang, aid that directly creates jobs and promotes development. Our interview with an official in Kunshan’s Bureau of Land Management confirmed that Kunshan’s development would be much constrained without “borrowing” the land quota from Suqian.

To sum up, through establishment of stronger ties with Taiwan and other cities in China, especially in the Yangtze River Delta, Kunshan is entering a new phase of development. Against the background of territorial restructuring, power consolidation, and reconcentration, a new type of urban entrepreneurialism is emerging, with an emphasis on regional cooperation. This regional cooperation is characterized first by stronger links to Taiwan in the global microelectronics production networks concentrated in East Asia as an enclave with port access in Kunshan and Taichang and also by a land-expansion strategy to sustain growth in Kunshan. Territorial cooperation is thus not just collaboration with neighbors, but also a territorial strategy of capital expansion that extends the growth space and scope of Kunshan.

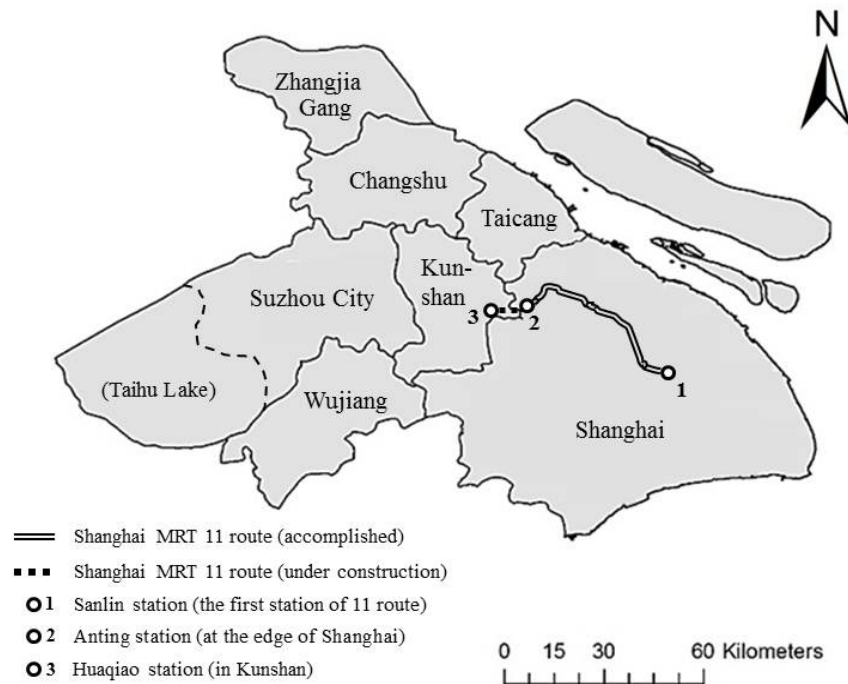
*Coordination by Upper-Level Governments*

Kunshan's transformation is not, it must be noted, facilitated by the city alone. Without institutional assistance from upper-level governments, such as prefecture and provincial authorities at the subnational level, Kunshan would be unable to overcome those institutional constraints posed by its low, county-level administrative status. The metro system between Kunshan and Shanghai is a case in point.

It is widely known that Kunshan suffered terrible public transportation linkage with Shanghai. It only takes twenty minutes to get from Shanghai to Kunshan; however, tickets are precious due to the limited frequency of train service. It is common for people who do not make ticket reservations in advance to wait two to three hours in the Shanghai station to get a seat for Kunshan. In order to resolve this problem, Kunshan proposed extending the Shanghai Mass Transit Railway (MTR) system to Kunshan, an idea that received a lukewarm response from the municipal government of Shanghai. Fortunately, due to the negotiation efforts of Li Yuanchao, then governor of Jiangsu and incumbent minister of organization in the Chinese Communist Party, along with Shanghai's mayor, Kunshan was able to self-finance the extension of the Shanghai MTR system from Anting (the closest station of the Shanghai MTR to Kunshan) to Huaqiao (the township of Kunshan just beside Shanghai) (see map 2). In addition, the provincial government of Jiangsu coordinated regional cooperation between Kunshan and Taicang for the industrial zone and river port link, as well as between Kunshan and Shuyang for the mutual benefits ensured via the system of pairing assistance discussed earlier.

Because of Kunshan's low administrative status, facilitation by upper-level governments for local development started before the twenty-first century. The most obvious example is the establishment of the Kunshan EPZ, a special enclosed area enjoying preferential treatment in the form of higher tax rebates, fewer tariffs, convenient bank deposit services, and the transport of semifinished products to outside zones.<sup>11</sup> From this perspective, the EPZ system is similar to special economic zones that provide the fastest customs service, the most favorable tax policy, the most convenient arrangements, the most integrated facilities, and the simplest procedures in reporting and documenting exported and imported goods. The process of building the Kunshan EPZ, the first among county-level administrations, involved negotiation and coordination among many high-level government organizations, including the Ministry of Financial Affairs, the

Map 2: The Metro Extension from Shanghai to Kunshan



Source: Compiled by the author.

General Custom, the Ministry of Civil Affairs, the Ministry of Construction, and the Ministry of Commerce. Without help from provincial and central officials, Kunshan certainly would not have been able to deal with so many high-level authorities (Almanac Office of KETZ 2000).

Comparing these two cases of upper-level involvement in the local development of Kunshan helps us further understand the transformation of urban entrepreneurialism in China. In the previous phase, the decision-making process of building up an export-oriented zone in Kunshan was mainly a response to the business demands from Taiwanese high-tech manufacturers who were keen to improve the then slow customs service. However, in the later phase, upper-level involvement in the connection of Kunshan with Shanghai was as focused on business as on Kunshan's overall territorial competitiveness.

Jiangsu's local leaders are always requested (forcibly or voluntarily) to win territorial competitions by continuously upgrading its economic performance. Therefore, helping to develop Kunshan, a territorially small and administratively low—but economically critical—local player, is a good choice. Kunshan made a far greater contribution to Jiangsu's GDP production over the years (from 3 percent in 2002 to 5 percent in 2009) than the rest of its hundred county-level administrations.

### **Discussion and Conclusion**

Using Kunshan as its empirical case study, this article examines the emergence of Chinese urban entrepreneurialism in the 1990s and the subsequent change from deregulation to reregulation since 2005 in Chinese cities. The city of Kunshan employs a business-friendly approach and has managed to attract significant overseas investment, especially from Taiwan, and thereby develop a cluster of ICT industries. A formerly rural county, the city of Kunshan has successfully inserted itself into the global production network, like many other cities in the Yangtze River Delta (Wei, Lu, and Chen 2009; Yeung 2009). Economic growth is driven by land development, with the conversion of agricultural to industrial land providing cheaper production space to overseas investors (Yang and Wang 2008; Hsing 2010). To promote land development, the city of Kunshan tried in the early 1990s to circumvent the regulation of its upper government and set up a self-funded industrial zone, which was later recognized by the central government and became one of the national-level ETDZs. Urban entrepreneurialism has led to fierce intercity competition, especially between Kunshan and Shanghai, in the process of attracting foreign direct investment. However, since 2005, locally based entrepreneurialism has been experiencing subtle yet important changes. After tightening up land leasing in 2003 and 2004, the central government adopted further land quotas in 2005 to control the pace of land development.

The case of Kunshan examined in this article shows the new characteristics of the general trend of local development in China. While much of the new development still relies on foreign investment and land development, the latest model differs from urban entrepreneurialism in its earliest stage, when it was characterized by local initiatives, aggressive market deregulation, and race-to-the-bottom territorial competition. To some extent, the new forms of governance reflect a more mature stage of economic development and an emerging constraint of resource use. For

example, Kunshan, like many other cities, began to require that industrial projects exceed the minimum intensity of investment per square kilometer. A salient feature of new urban governance is the involvement of the state across different scales of local development. Upper levels of government strengthen the function of coordination, while lower levels of governments begin to seek collaboration based on their own interests. The new mechanisms, such as land quotas and functional zones, included in the master plan have been created to achieve more orderly development.

In addition, the case of Kunshan also suggests that China's urban entrepreneurialism is evolving along with the development of the market. Market development does not lead to the demise of the planning mechanism and state regulation; rather, excessive competition and chaotic development require more coordination between local governments. In addition, economic restructuring and the development of producer services raise new demands for governance of infrastructural development. The transformation of local governance in China is a response to the demands of a more mature stage of economic growth.

The transformation of local governance in China provides a chance to theoretically understand the relation of state and market in this new phase of development. While the concept of the developmental state has been widely applied to East Asian economies (Wade 1990; Woo-Cumings 1999), such a nation-state-level analysis is inadequate for understanding the forceful drive of local economic development in China, resulting from deregulation and entrepreneurialism centered on land and industrial development. On the other hand, Chinese urban entrepreneurialism is different from the widely documented urban entrepreneurialism under Western advanced capitalism (Harvey 1989). Rather than being based on business associations such as the chamber of commerce, or the coalition of the private sector and civic boosterism, the local state continues to play a significant role in the process of development and regulation. Chinese urban entrepreneurialism thus presents a hybrid of the developmental state and urban entrepreneurialism. Similar to the developmental state, the local state can use a wide range of policy instruments, including land incentives, to foster economic development and develop strategic plans to coordinate growth. But this urban entrepreneurialism operates not through national macroeconomic management but rather relies on the consideration of locally based economic competitiveness. Further, this study reveals a new process of emerging and

complex multiscalar governance in China, which departs from the prototype of neoliberal entrepreneurialism described in the literature. To some extent, China's urban entrepreneurialism disproves rather than supports the common wisdom that Chinese rapid local growth is centered on market deregulation.

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### Notes

<sup>1</sup> There are at least two kinds of different but related approaches to analyzing urban entrepreneurialism in China. The first pays attention to the personal dimension, understanding the entrepreneurial aspects of local officials such as personality, commitment, vision and power, personal and informal social capital, and the connections of charismatic local leaders. This approach requires certain information on particular entrepreneurial local individuals. In contrast, the second focuses on a more institutional dimension to comprehend the entrepreneurial behaviors of local states toward the market force and upper-level or lower-level states. The second approach discusses mechanisms and the effectiveness of different development phenomena operated and contested by various agents. This paper adopts the second approach and therefore mainly examines the Kunshan local government as a whole, instead of focusing on individual Kunshan leaders. We thank a *Cross-Currents* reviewer for this distinction.

<sup>2</sup> Kunshan *ri bao*, February 13, 2011.

<sup>3</sup> From

<http://www.chinareviewnews.com/doc/1012/8/9/6/101289685.html?coluid=0&kindid=0&docid=101289685>. Accessed March 15, 2011.

<sup>4</sup> Mazu is a popular goddess who has been widely worshipped in Taiwan. Renovation of the *qu hui* temple was also facilitated by the *tian hou* temple of Lugang, the biggest Mazu temple in central Taiwan.

<sup>5</sup> From *zhong guo shi bao*, December 13, 2009.

<sup>6</sup> From *lingdao juece xinxi* (based in Beijing) no. 15, April 2004.

<sup>7</sup> It is reported that companies in the greater Suzhou area can save one to three days on the direct shipping trip as compared to their previous round trip via Shanghai or elsewhere.

<sup>8</sup> China Central Television, December 14, 2010. Accessed on March 1, 2011. Also *Taicang ribao* (based in Taicang), December 29, 2009.

<sup>9</sup> According to the memorandum, Kunshan does not need to cultivate more farmland in Shuyang in order to compensate for the loss of farmland in Kunshan that is converted to constructed lands. For the full text of the memorandum, see *subei fazhangwang*, January 16, 2002.

<http://www.sbfz.gov.cn/nbgg/jhrw7.htm>. Accessed on March 15, 2011.

<sup>10</sup> "The lack of agricultural land available for conversion to construction land is a general problem facing the so-called economically strong countries," said Liu, then vice director of the

National Bureau of Statistics, in a forum of China's most-developed county-level administrations. See <http://finance.sina.com.cn/g/20050920/12021983475.shtml>. Accessed on March 15, 2011.

<sup>11</sup> Four special favors to companies investing in EPZ can be identified: first, companies investing in EPZ can enjoy more tax rebates; second, companies in an EPZ can freely transfer goods to other companies within the EPZ; third, companies in an EPZ are not required for the bank deposit system, custom registration system, value-added tax, or consumption tax on processed products; fourth, imported cargo through an EPZ can be exempt from tariffs and other complicated local duties before being exported. See Chien 2007 and Wang and Lee 2007.

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