Institutional Constraints, Path Dependence, and Entrepreneurship: Comparing Nantong and Zhangjiagang, 1984-1996

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Introduction

Why do some Chinese cities develop quickly while others demonstrate a slower pace of growth? Location may play the pivotal role, as coastal cities in China have developed much quicker than inland ones. But even among coastal cities, the pace of development has varied considerably. Why? Four factors seem most salient: (1) the institutional constraints a city faced as the reforms emerged and changes to these constraints proffered by "preferential policies" (youhui zhengce) granted to it by central or provincial leaders; (2) its level of "path dependence;" (3) its opportunities -- i.e., endowments or comparative advantage; and (4) the entrepreneurship and strategies of its leadership. Still, as much as one may try to portray these factors as distinct influences on economic outcomes, they are highly interrelated.

Institutional Constraints and Path Dependence

As the reform era began, communities faced different institutional constraints. In particular, their tax commitments, their administrative boundaries, and the level of regulation by what Leeds calls "supra-local power authorities," all set limits on their ability to respond to new opportunities. A community’s location within the "hierarchy of urban places" set limits on its ability to respond to evolving opportunities under the reforms. Cities remained highly constrained by provincial governments and their industrial bureaucrats who, under a system of "partial reform," have the authority to
interfere in their decisions. Similarly many "county-level" cities were
seconded to larger municipalities whose political influence could affect their
economic activities. Moreover, many aspects of development, particularly
those related to internationalization, such as building harbours, opening
airports, expanding international shipping lines, establishing national-level
development zones, and the power to authorize joint ventures, remained under
the purview of higher level officials to whom urban leaders could often only
raise plaited pleas.

A city's administrative boundaries constrained development. Land was
not marketable for much of the reform era, and without the intervention or
approval of higher level officials, it could be obtained only through
negotiations with neighbouring administrative units. But a city's (and its
leader's) status depended on their city's GNP, so few governments willingly
allowed land, and more particularly the industrial enterprises on that land, to be
transferred from their control. Similarly, the city's industrial base was the core
of its taxes, creating a local property rights system that mirrored that in Western
corporations. But with limited land transfers, cities were constrained in their
efforts at industrial expansion and the creation of the type of infrastructure that
would attract new domestic and foreign investment.
However, as the reforms unfolded, China's institutional environment changed as the state, through a process I call "segmented deregulation," reduced barriers between the outside world and a host of "open" cities, regions, and spaces, expanding these locality's internationalization by endowing them with "preferential policies" or "exemptions" from regulatory controls that still governed global transactions between other domestic locations and the outside world.\textsuperscript{9} These exemptions--tax breaks for foreign investors, easier access to capital, greater freedom in foreign trade, increased local, decision making authority over foreign investment--also lowered transaction costs for international commerce and increased the likelihood of successful business operations, even as extant regulations constrained other communities' transactions with the global economy.\textsuperscript{10} These preferential policies also attracted domestic investors who sought benefits from lower transaction costs, particularly tax breaks available in these "open" spaces.

Second, cities did not begin the reform era within an "institutional void."\textsuperscript{11} Previous investment in particular industrial sectors, or districts within a community, often the heritage of pre-reform or early reform decisions, created a "path dependence" that limited the city's ability to reallocate its investments from "sunset" industries into new, export-oriented sectors of the economy. Stark's work shows the political power of society, as citizens resist the
transition costs that come with industrial restructuring and the shift from more planned to market-oriented, or from public to private, economic development.\textsuperscript{12} Vested interests in these industries, in particular the concerns of workers, managers, and higher level officials, create serious political constraints on a city’s ability to reallocate its investments into sectors, projects, or locations that offered the greatest returns under the reforms, in particular into new links with the international economy. Many industrial enterprises, long protected from international competition, could not survive a sudden transition to export-led growth (ELG). As a result, while market forces should push investments into zones, harbours, airports, roads or other infrastructure investments that open links to the global economy and cut transaction costs,\textsuperscript{13} political forces based on domestic institution or political constraints can undermined such forces and even redirect such investments.\textsuperscript{14} The result is less productive investments that waste capital and slow economic growth.\textsuperscript{15}

Third, each community had its own natural endowments which resulted in different, as economic resources, costs, and opportunities for growth, especially trade related opportunities, are all highly correlated with location.\textsuperscript{16} Under export-led growth, endowments, such as the possession of a harbour or being situated near a major highway or trunk line, improve a locality’s comparative advantage in terms of transport and production costs. Also, under
the policy of spatial deregulation, location was also the best determinant
whether or not a community would receive preferential policies. Similarly, a
community's economic hinterland affected its growth rate, by determining the
costs of inputs to its industry, the size of its consumer base, the markets for its
products, as well as the amount of goods and services that flowed through it.

Fourth, entrepreneurial community leaders could proactively alter the
institutional framework within which their economy functioned by lobbying for
open status or restructuring the community's relationship to upper level
governments. By elevating their community's status within the hierarchy of
urban places, they could escape some institutional constraints imposed by
supra-local power authorities. With higher status they could take land from
now lower-status, neighbouring administrative units and resolve administrative
conflicts among units within their own domain. Higher status communities
could deal directly with higher level administrators, with less interference from
intervening bureaucratic levels. Higher ranking cities were empowered to
alter their own investment climate--they could approve larger foreign
investment projects, or could establish foreign trade companies that could
approve imports and exports without the approval of foreign trade officials. In
all these ways, they could overcome the political limits imposed by
bureaucratic constraints and "path dependency," utilize their comparative
advantage and natural endowments, and maximize the opportunities created by the new policy environment, to advance their community's interests.

And controlling deregulated spaces was critical to successful development under China's reforms and was a key component of entrepreneurial leadership. Territories endowed with "openness" developed an enormous "power of attraction" within the domestic economy, drawing in resources for infrastructure projects, as well as domestic enterprises that sought a less regulated domestic environment and fewer barriers to global transactions. Therefore, entrepreneurial leaders sought "preferential policies." According to a slogan at the time, local officials "didn't want money, just power" (bu yao qian, zhi yao chuan)—i.e. "policies"—freedom from bureaucratic and tax regulations governing global and domestic transactions. Through "particularistic contacting," involving lobbying, personal networks, and promises of political loyalty, and targeted investments, a community could internationalize its harbour, gain the tax exempt status of a State Council development zone, obtain the preferred tax breaks available to cities directly under the provincial or national budget, or benefit from the myriad opportunities that the center or provinces bequeathed as the open policy unfolded. And once they got those policies they needed to market them, so as to attract enterprises from other location to resettle in their community.
Gaining access to international markets and foreign direct investment (FDI) was another critical strategy in the 1980s and 1990s. Since 1978, China's growth in exports has outpaced its GDP growth, making exports a driving force behind China's expanding economy. International prices have been very favourable to Chinese industry, and as the costs of foreign trade dropped--through improved shipping facilities, new technologies, deregulation, and new trade networks--China's comparative advantage in foreign trade--which Mao had ignored--generated great opportunities for those who dared to enter global markets. But could cities move into export-led growth when faced with rigid institutional and political constraints? Could they shift investment and capital flows away from established patterns that had taken on the quality of entitlements? Even if they possessed comparative advantage in location, local entrepreneurship was necessary if communities were to shed their institutional constraints and path dependence, gain preferential policies which deregulated their relationship with the outside world and turn their city's comparative advantages or endowments into opportunities for growth and development.

Finally, entrepreneurial leaders can maximize their opportunities and minimize their transaction costs by altering the political and economic climate within their community. Creating norms, belief systems, or social conventions within the community increase compliance by lower level officials and cut
monitoring costs.\textsuperscript{23} Assembling teams of trustworthy staff and creating marketing networks expand the city's economy. By building winning coalitions of social, political, and economic interests, elites can overcome the constraints of path dependence that make reallocating capital so difficult. They also need to simplify their city's regulatory regime and the process of foreign investment, helping foreigners traverse the maze of bureaucratic obstruction confronting foreign investment. Finally, they must constantly seek new products and markets where "extra-normal" profits are still available;\textsuperscript{24} only in this way can their growth outpace other similarly endowed communities.

\textbf{The Two Case Studies}

This paper compares two communities, both situated in the lower Yangzi River Delta: Nantong, on the north side of the river, and Zhangjiagang, on the south side (see map). Each city faced constraints as the 1980s unfolded. Nantong, a "second level city," was directly controlled by the Jiangsu provincial government; Zhangjiagang began the era as a county but became a "county level city" in 1986, unshackling it from some constraints imposed by Suzhou Municipality. Yet their location and endowments (both possessed excellent harbours) proffered important opportunities and limitations as the lower Yangzi River Delta was incorporated into the world economy. Also
national, provincial and regional policies set the political and economic context within which they faced the global and domestic economy. Thus Zhangjiagang's position on the south side of the river, near the booming cities of Wuxi, Suzhou, and Changzhou, would prove to be a big boon. Yet variations in local leadership explain much about the differing pace of development of these two communities, determining whether institutional constraints and "path dependence" limited their economic opportunities, and the extent to which they utilized preferential policies and transnational linkages to maximize opportunities under China's open policy.

These two cities were the key research sites of my 1991-92 investigation into the domestic impact of China's "open policy."25 I chose them both because they had harbours, and were more likely to be affected by policies which increased interactions between external and internal forces. Initially, I planned to visit only Zhangjiagang, which I knew was a small rural community with an important harbour, but without any clear knowledge of how responsive that community had been to global market opportunities. After visiting Zhangjiagang, I realized I needed a comparative case and, while I toyed by the idea of studying Ningbo, it was far easier for Nanjing University's Department of Foreign Students and Scholars to make arrangements within Jiangsu Province. Nantong, one of 14 Open Coastal Cities, with a major harbour on the
opposite side of the river, situated in poorer northern Jiangsu Province, seemed an excellent point for a comparative study.

Zhangjiagang is a community on the march, whose leaders constantly find new ways to stay ahead of their regional competitors. While in 1978, it was the poorest of the counties under Suzhou Municipality, its economic transformation began in the late-1970s during the heyday of the growth of township and village industries (hereafter TVEs) in southern Jiangsu Province. TVEs became Zhangjiagang's comparative advantage in foreign trade and foreign investment, as TVEs flexibly responded to international market demands while their low labour costs let them enter the global market at the low end of the product cycle. Known throughout southern Jiangsu as aggressive and somewhat unscrupulous businessmen, their leaders mobilized the entire community in the late 1980s and early 1990s for a massive transition to export-led growth.

While other counties in southern Jiangsu also possess strong TVEs, Zhangjiagang's harbour on the south side of the Yangzi helped raise its status in the hierarchy of urban places from a county to a "county-level city" and gain "open" status before nearby communities. No doubt, local elites lobbied hard for these benefits, and with their allies in the provincial foreign trade and investment bureaucracy, who supported their aggressive entry into the global
economic fray, they were able to receive a critical preferential policy, a "bonded free trade zone," established at their harbour. In this way, Zhangjiagang officials established new organizations and grabbed most linkage opportunities proffered by the state that enhanced global communication, transactions, and investment. They also fiercely protected their autonomy, as when they resisted provincial plans to build a "second-level city" at their harbour.

Since 1992, under a new party secretary, Zhangjiagang has tied its cart to the Communist Party's General Secretary, Jiang Zemin, and his effort to combine economic development with a strict social and political order—the campaign on "spiritual civilization." After utilizing this form of authoritarian developmentalism to promote economic growth at home, Zhangjiagang has become a national model of how to link with foreigners, keep a clean environment, and maintain tight party control, even as economic growth zooms forward.

Nantong is the gateway to the Yangzi River and Shanghai for northern Jiangsu Province. But, while privileged in 1984 with the status of being an Open Coastal City (OCC), Nantong squandered many opportunities. An unsuccessful effort to establish a joint venture harbour undermined harbour development, while their State Council development zone, due to its physical
and political isolation from the city, had still not taken off by 1992. seven years after it was established.

The city seemed trapped by its previous investment in state-owned enterprises (SOEs). Built up around the city centre and in Tang Za Zhen, the birthplace of Nantong’s turn-of-the-century industrialization, the SOE sector was in decline in the 1980s. It could not compete with TVEs nor with foreign funded enterprises (FFE). But rather than jettison its textiles and food processing industries and restructure the economy towards export-oriented production, such as electronics and electronic machine building, Nantong chased away foreign investors in the mid-1980s, limited foreign access to its TVEs, and never fully utilized the development zone. Local officials argued that their tax obligations to the Jiangsu provincial government limited leadership flexibility. But according to data on the city’s income and expenditures presented below, Nantong bore no special burden. More important perhaps is that funds allocated to it as one of China’s 14 original OCCs were spent propping up ailing SOEs, rather than turning the economy outward. As a result, as of 1992, Nantong had been a somewhat laggard performer among OCCs, and despite its preferential policies, was no more successful in establishing joint ventures or in promoting its own GNP, than smaller cities in Jiangsu such as Yangzhou or Changzhou (see table 4). In fact,
as table 8 shows, if you compare its gross value of industrial output (GVIO) with that of Zhangjiagang, which is ten times smaller in terms of population, we can see how Zhangjiagang has caught up dramatically since the late 1970s, and particularly since the mid-1980s, when Zhangjiagang really took off. Thus, location, bureaucratic constraints, and poor decisions by weak leaders who failed to break the bonds of path dependence explain the comparatively slower pace of Nantong’s development.

**The Regional Context: Jiangsu’s Open Policy**

The regional context of these two communities helps explain their differing rates of development (see map). Jiangsu has three distinct economic zones: (1) *Sunan*, including the cities of Suzhou—where Zhangjiagang is located—Wuxi, and Changzhou, (also called Suxichang); (2) *Subei*, comprised of Xuzhou, Huaiyin, and Lianyungang; and (3) a middle zone, sometimes referred to as *Suzhong* including Nanjing, Yangzhou, Zhenjiang, Yancheng, and Nantong. Significant differences exist among these three zones in terms of industrial output versus agriculture, per capital income, FDI, and the types of economic linkages that exist with other regions of the country. *Sunan*, where Zhangjiagang is located, is one of the fastest growing areas in all of China. As the harbour for that region, Zhangjiagang received enormous fiscal attention.
and economic benefits. Suzhong, where Nantong is located, is a middle income region in the province and has done well under the reforms, although its eastern regions have grown more slowly than the west which benefits from ties to Nanjing. As the harbour for the eastern region, Nantong benefitted from the post-1992 growth in the counties north and east of it on the coast, but on its own has not acted as a growth pole for the entire region. Finally, Subei remains quite poor.

Opening Jiangsu Province to Foreign Investment

Jiangsu Province was not one of the earlier advocates or beneficiaries of internationalization. Early efforts to open Pudong on the eastern side of the Huangpu River in Shanghai were opposed by Jiangsu officials, and in order to protect central finances, Chen Yun, back in the early 1980s, had specifically ruled out any special economic zones for Jiangsu Province. Thus no cities in Jiangsu were on the initial list of 14 OCCs composed by Beijing in 1984. Officials in the Special Economic Zone Office (SEZO) under the State Council admitted that they had not been very familiar with Nantong. Either initially Jiangsu's leaders did not push hard enough for their inclusion, or Shanghai wanted to keep all neighbouring cities off the list. But after extensive lobbying by Jiangsu Province, and visits to the cities by SEZO officials, Nantong and
Lianyungang were included among the 14 OCCs and were allowed to build Economic and Technical Development Zones (ETDZs), which included important tax exemptions and other preferential policies. According to SEZO officials, Nantong's inclusion was a gift to Jiangsu Province; it is the only riverine harbour of the 14 open coastal cities.

Jiangsu's internationalization deepened dramatically with the 1985 State Council decision to open three river deltas, one of which was the lower Yangzi Delta. As a result, Suzhou, Wuxi and Changzhou were opened to foreign investment, as were the counties under their administration, including Zhangjiagang. Then in March 1988, the expansion of the Open Coastal Economic Zone opened the urban areas and rural counties in Nanjing, Yangzhou, Zhenjiang, and Yancheng municipalities to foreign investment, as well as counties under Nantong and Lianyungang, Jiangsu's two OCCs. Also beginning in 1985, rural towns in Jiangsu were sequentially recognized as "industrial satellite towns" of urban centers and allowed to host FDI and receive some tax and investment benefits reserved for coastal cities. This policy benefitted Zhangjiagang and southern Jiangsu for whom TVEs were a key resource for attracting FDI and promoting foreign trade.

Opening Shanghai's Pudong District on the east bank of the Huangpu River in April 1990 increased FDI and domestic development into the lower
Yangzi Delta, as the central government announced plans to invest US$10 billion into Pudong to make it the "dragon head" for the development of the entire region. Thereafter, in May-June 1992, the State Council opened 28 cities and 8 prefectures along the Yangzi River, running up to Sichuan Province, granting them the same exemptions as cities along the coast. All these policies increased the flow of goods and services through Jiangsu Province as the pattern of development for this region was in the shape of the Greek letter "PAI," with the coast as the top and the two pillars of the "PAI" being the Yangzi River and the Shanxi Lianyungang rail line.

Foreign investment within the province varies along the lines of the three zones. Table 4 shows significant regional disparities in FDI. Nanjing has benefitted as the political centre of the province; nevertheless, Suzhou Municipality, where Zhangjiagang is located, has surpassed it as the centre for FDI in the province. Also, county level data on FDI from the 1994 Jiangsu Statistical Yearbook shows that a county's or county-level city's location in these three zones is an important predictor of the level of FDI in 1993, both in terms of the amount of US dollars and the number of contracts. Part of the explanation, of course, lies in the fact that rural areas in Sunan were opened to FDI three years before rural areas in the rest of Jiangsu. Nevertheless, the best explanation for the number of FDI contracts in 1993 was a combination of
towsip and village industrial production (which is also highly correlated with regional factors), plus the year in which the county was opened to FDI, suggesting that the level of TVE development was crucial, as it is the main independent force attracting FDI to a rural locality. Thus, as we will see below, Zhangjiagang's TVEs were a critical attribute in its export-oriented development, even as Nantong's more conservative TVE policy undermined its overall level of internationalization.

*Investment and Infrastructure Development in the Lower Yangzi Delta*

The lower Yangzi River delta, particularly the Shanghai-Nanjing corridor, was one of only two zones of urban agglomeration in pre-1949 China. As such, its infrastructure should have far surpassed that of other regions in China. However, like Shanghai, Jiangsu's provincial leaders were quite conservative; their eyes always focused on Beijing, and they saw their task primarily to insure that a high percent of their fiscal income went to the central government. As a result, Jiangsu invested little on urban development. According to Dangdai Zhongguo de Jiangsu, between 1949 and 1985, only 4.1 percent of state investment by state-owned units went to urban construction,
while another 12.4 percent went to transportation, communication and postal services. Similarly, road development did not keep pace with demand—in 1978-84, mechanized vehicles increased by 96 percent, bicycles by 87 percent, but the amount of roads increased only by 36 percent, creating traffic bottlenecks which increase the costs of doing business.

Jiangsu Province and the national government began to invest in infrastructure in the early-1980s. As part of the third, East coast port group of southern Shandong, Northern Jiangsu, and the Yangzi River Delta, the harbours in Nantong and Zhangjiagang received funding under the Sixth Five Year Plan (1981-1985), which emphasized construction of harbours along lower reaches of Yangzi. Even more money was poured into Jiangsu's harbours under the 7th Five Year Plan (1986-1990) as part of a "national key construction project" (guoji zhongdian jianshe xiangmu), including 260 million RMB to build five new 10,000 ton berths at Zhangjiagang's harbour and 220 million RMB for upgrading one old berth and creating three new berths in Nantong, thereby creating four 10,000 ton berths. Nanjing has built a major international airport and a highway to Lianyungang. A new bridge at Jiangyin City, next to Zhangjiagang, will bring traffic from Subei directly through to the south, as will a new railroad from Wuxi to Jiangyin (see map). But the bridge and rail line may push Nantong to the periphery, as goods from the north will flow south,
rather than east towards Nantong. This flow could increase the role of
Zhangjiagang’s harbour. Thus in 1992, Nantong established ferry service to
Changshu city directly across the river which will cut travel time to Shanghai.
The province also built a new road from Nantong to Yangzhou (and Nanjing)
with World Bank money.

The province also invested in its two OCCs, giving each five million
RMB a year for four years (1986-1989); in 1990-91 it also gave them an interest
free loan of 4 million RMB. This level of funding surpassed the 10 million
RMB Liaoning Province reportedly gave Dalian for developing its zone, but
paled compared to the 150 million RMB Guangdong Province reportedly gave
Guangzhou.

Brief Background on Nantong and Zhangjiagang

Nantong was established in 958 AD. Originally, known as Tong Zhou, it
was renamed Nantong County after 1911. The city sits on the northern shores
of the Yangzi River, approximately 96 kms. up river from Wusong port of
Shanghai. Its economy was based on its role as the industrial gateway to
Shanghai for the hinterland of northern Jiangsu. Historically, it became a major
producer of textiles, relying heavily on cotton produced in the Subei
countryside.
In the late 19th century, its industrial development takeoff was led by Zhang Jian, a local entrepreneur who in 1895 set up a large textile plant in Tang Jia Za, approximately six kms. from the centre of today's Nantong. Thereafter he built several other plants, established grain and shipping companies, built a teacher's college, and in 1903-04 built a harbour for the city. In the 1920s and 1930s, industry expanded somewhat, again relying primarily on textile production. In fact, as of 1926-33, Nantong County had the largest acreage in Jiangsu planted to cotton. Nantong was also a center for agricultural processing and most of these goods were brought to Nantong by boats, on a series of rivers and canals running from the north, and then were shipped out through Nantong's harbour to Shanghai.

In 1949, the county was renamed Nantong City, as the county was cut off from the city, and in 1952 the urban area became a provincial-led city. As a second level city, it was given direct control over six counties in 1983 under Jiangsu's policy of "city's leading counties" (shi lingdao xian). These counties had previously been part of Nantong District. Its harbour, which had previously been a domestic harbour under control of the Yangzi harbour commission located in Wuhan, was internationalized in 1983 and received six international shipping lines. Then in April 1984 Nantong became one of 14 Open Coastal Cities with the right to build a national level Economic and
Technical Development Zone. Yet Nantong had already been an important export processing city, having been recognized as one of 46 "key cities" and one of 33 "general commercial export production centers."

Zhangjiagang's historical development was quite different. People there are descendants of immigrants from Subei, who settled on the south shore of the river after their villages were pulled into the river through natural erosion. There on the south side of the river, they reclaimed land from the river, a process that continues today. Province-wide they are seen as very aggressive people, spatially isolated from Suzhou's high cultural traditions, living precariously on land built up over time, as floods and dykes often collapsed. In some ways, they lived on the periphery of Sunan, physically, culturally and economically. In fact, their community was sometimes called the "Subei of Sunan."

Shazhou County, the original name for Zhangjiagang--it changed its name in 1986 when it became a "county-level city"--did not exist before 1962, but that year was carved out of Jiangyin and Changshu counties, the former under Wuxi Municipality and the latter under Suzhou Municipality. Geographically it is closer to Wuxi. This makes the community schizophrenic, as economically it is also economically closely linked to Wuxi--all of Wuxi's
exports go through Zhangjiagang's harbour--while administratively it has been part of Suzhou, with which it has few economic links.

But its existence on Suzhou's periphery has endowed the community with greater autonomy and a fierce drive to catch up. Hungry for development, Shazhou County leaders promoted TVEs at a rapid pace in the early 1980s. The community's growth in the 1980s is also derived in no small part from its harbour and the contributions of supra-local authorities who wanted to promote the harbour. Yet even as Zhangjiagang's leaders use the harbour to bargain for "policies" and other financial opportunities, such as higher status, new roads, a plethora of joint ventures, and a free trade zone, all of which advance the city's interests, they have maintained their autonomy and limited interference by these upper level authorities.

**Constraints on the Development of the Two Communities**

Both communities faced important administrative constraints as they emerged from the Maoist era. Both were directly controlled by the next level in the administrative hierarchy--the province for Nantong and Suzhou Municipality for Zhangjiagang. With harbour development a key component of their growth, both were affected by the Ministry of Transport, which allocates
international shipping lines and, as of 1992, still allocated 70 percent of all international shipping in China through a national plan. It also determined where investment capital would go for harbour construction. Also provincial bureaus, including the provincial commission on foreign trade (COFERT), the grain bureau, the coal bureau, and other bureaus that needed shipping docks, could choose in which harbours to invest.

On all these counts, Zhangjiagang won out. Because of the preferred location of its harbour on the south side of the river, it received more support from the provincial government. It also received more international shipping lines. Also, while Nantong spent five years in fruitless negotiations with a Dutch firm to establish a joint venture harbour—an effort that was subverted by the monopolistic Ministry of Transport which refused to give the future port any shipping lines—Zhangjiagang built its container facilities which are critical to cutting shipping costs in the 1990s. Finally, by shifting to a county-level city it evaded some constraints imposed by Suzhou. Let us look at these events in slightly greater detail.

**Administrative Constraints on Nantong**

As a second level city, under direct control of the province, and a base for SOEs, Nantong's options for development were limited by supra-local fiscal constraints. The province relied on Nantong for its own budget and for the
industrial profits the province passed to the central government. According to local officials, Nantong sends over 80% of its industrial profits to the province. Reportedly the targets for Nantong were set based on their 1984-1986 income, which was quite high. Nantong had just gone through a major growth spurt in 1982-1984 due to the expansion of TVEs. But this growth was extensive, not intensive, so profits have been hard to sustain. According to local officials, these high payments in 1991 left the city with only 1.3 billion RMB, just enough to run the government and pay its staff.\textsuperscript{42} but with little capital for reinvestment.\textsuperscript{43}

Still, one must take these complaints with a grain of salt. As table 6 shows, Nantong did not contribute any larger percent of its revenues to the province than other "second" level cities in Jiangsu. The first three rows of table 6, "Local finances to be passed up" (difang caizheng ying shang jie zhi chu), show that Nantong bore no special burden. Also, if the difference between a city's income and its expenditures reflects the amount of capital that it passes up to higher levels, then table 6 shows that Nantong's burden was less than the cities in southern Jiangsu. In fact, while its income (shou ru) was similar to Changzhou's, it passed up about 25 percent less of its revenues.

Also, "local finances that were to be passed up" as a percent of "local revenues" (shou ru) shows again that Nantong falls in the middle ranks in the
province, passing up a much smaller percent of its income to the province than the cities in Sunan. For the years for which we have data--1989, 1991, 1993--Nantong averaged 58, 63, and 59 percent respectively, while Wuxi, Changzhou, and Suzhou were always passing up over 70 percent of their income and in 1991, they turned over 83 (Changzhou), 85 (Suzhou), and 91 percent (Wuxi).\textsuperscript{44}

Finally, and of great importance for our overall argument in this paper, for these same years, table 7 shows that Zhangjiagang actually passed up 70, 85, and 74 percent, respectively, despite its reliance on TVEs rather than SOEs.\textsuperscript{45}

Nevertheless, Nantong faced great pressure to improve its urban infrastructure. Investment in housing and other aspects of urban infrastructure was among the lowest in the province, in part because much income goes to the state. According to the 1991 provincial statistical yearbook, Nantong had the least per capita square footage of housing of any major city in Jiangsu Province.\textsuperscript{46} Similarly, the length of usable roads was much less than cities in Sunan, and its acreage of greenbelt was the second lowest in the province.\textsuperscript{47} Moreover, when compared to Zhangjiagang, our point of comparison, Nantong faced greater fiscal constraints.

The city's location is problematic for foreign investment. Ironically, the Yangzi River, which was the reason the city received its "open status," cut it off from the economic boom in Sunan.\textsuperscript{48} Access to the city is difficult--five hours
by bus and hydrofoil from Shanghai. Also, only in 1992 did Nantong open a commercial airport, but it had no international routes, and here again outside forces influenced that decision. The original request for an airport was put forward in 1983—as the city was opening to the outside—but after Nantong became an OCC the State Council took the request seriously, approving the project in 1985 at a cost of 50 million RMB. However, the central government agreed to invest only 20 million RMB, leaving the rest to the city and the province. But due to concerns in Beijing that the limited number of prospective users would make the airport financially unsuccessful, the Bureau of Civil Aviation held up the project. According to one official,

> Airports are under CAAC (Minhang zong ju) and they would not want to build an airport where they would not get financial returns. They could not agree to build an airport, since Nantong is within the Shanghai economic zone (fushe fanwei). They learned the lesson of Behai, one of the coastal cities, where they put in a big airport that can handle 737s, but till today there is only one flight a week to Guangzhou and its not full... Not enough people would use the airport to make it financially viable.....so being close to Shanghai was not an advantage.

Also, according to officials in Nantong, Shanghai lobbied against the airport.49

Only in September 1990 did the State Planning Commission approve the formal construction project, allowing the work to begin.

The harbour's development has been affected by supra-local forces. The Ministry of Transport which allocates international shipping lines preferred to
ship through Shanghai or Zhangjiagang. Also, the provincial effort to limit its
dependence on Shanghai’s harbour, to whom it had to pay shipping fees, led
Jiangsu COFERT to build new berths at Zhangjiagang and make it a
"provincial export shipping center" (sheng waimao yunshu jidi). Also,
COFERT uses it relative monopoly on provincial exports to push business to
Zhangjiagang so that ships COFERT rents sail with full bottoms. Many Subei
exports are loaded onto international vessels at Zhangjiagang, not Nantong.

Even strategies for circumventing these constraints, such as attracting
foreign investment or establishing a joint venture harbour, were undermined by
the Transport Ministry. The idea of a joint venture harbour had been supported
by former premier Zhao Ziyang, but after four years of talking with a Dutch
company about building three 10,000 ton berths, the foreign investors pulled
out when they realized that the Ministry of Transport would give first priority
on shipping lines and cargo to its own berths. Initially, the Dutch had wanted
the Chinese side to put up their own three 10,000 ton berths as their
contribution to the venture, but the Ministry of Transport refused. Thus while
some analysts believe that Nantong's development plan should focus on it
harbour, control over this aspect of development was beyond the city's
control.

_Institutional Constraints in Zhangjiagang_
Institutional constraints affected Zhangjiagang's development, but far less so than in Nantong, which explains in part its more flexible response to new global economic opportunities. Moreover, Zhangjiagang's more advantageous location attracted much more positive attention from higher level authorities. Still, Zhangjiagang’s key administrative position under Suzhou Municipality, as well as its county-level status allowed Suzhou to play at best a minimal--and at worst a limiting--role in Zhangjiagang's development.

Why? The link between administrative boundaries, the taxes paid by industrial enterprises, and a system which ranks cities on their industrial output created strong disincentives for Suzhou to support industrial development and institutional change in Zhangjiagang. Because of its closer links to Wuxi, pressures existed within the province to move Zhangjiagang under Wuxi’s administration control. Were that to happen, however, Wuxi's GNI would suddenly surpass that of Suzhou’s, increasing Wuxi’s status. With the possible transfer constantly in the air, Suzhou officials had little incentive to channel funds, technology, or business opportunities into Zhangjiagang. Instead, they promoted counties such as Wu, Changshu, and Wujiang, with which they were more closely linked.

Also, because of Zhangjiagang’s harbour, regional planners in the provincial government who often met to plan the province’s spatial
investments, talked of building a "second level" city combining Zhangjiagang, Jiangyin, and Jingjiang, on the northern shore, to create a second "Wuhan" on the lower Yangzi, giving Suzhou officials a double incentive not to invest in Zhangjiagang\textsuperscript{52} (see map). Also, officials in Suzhou did not want the harbour at Zhangjiagang to become the property of an independent city, for it would lose another component of its GNI. Suzhou's interests lay in keeping Zhangjiagang and its harbour within their administrative boundaries; yet at the same time they had few incentives to see either the harbour or the town develop quickly on its own, especially if greater autonomy or financial investment from Suzhou were necessary to make that development occur.

Zhangjiagang's status as a county limited its access to provincial funds and provincial information, as all interactions with the province had to pass through Suzhou municipality's bureaus. Even if the province had wanted to introduce new technology into enterprises in Zhangjiagang, China's administrative hierarchy necessitated that the funds had to be given to Suzhou Municipality for transmission to Zhangjiagang; and since Suzhou preferred to allocate resources to counties or cities that would continue to embellish its own GNP and tax base, funds or technology targeted for Zhangjiagang would be Shanghaied in Suzhou. In fact, the province had little economic interaction with Zhangjiagang until it became a county-level city, at which point, the new
"city" became a line-item in the provincial budget, allowing provincial officials to deal directly with county leaders on some aspects of domestic investment.53

The harbour, too, attracted supra-local power authorities, particularly provincial officials, who tried to recreate Zhangjiagang according to their provincial and regional interests. In December 1984, then premier Zhao Ziyang visited the harbour and said that its construction could affect the entire situation (quan ju xing) and turn Suzhou, Wuxi, and Changzhou into a "golden triangle." He called for a new major harbour city on the lower reaches of the Yangzi River54 that could serve as a hub "to attract external funds and make internal linkages" (wai yin nei lian), and [become] a key foreign trade harbour and major distribution center (jisan di) of import and export products for the lower reaches of the Yangzi River."55

Provincial leaders responded enthusiastically. As a "national harbour" serving Sunan, it would be eligible for national and regional financial support and would allow the province the opportunity to export through its own harbour, rather than pay Shanghai for the use of its docks. Thus in 1985, a retired vice governor of the province suggested that a town of 300,000 be built at the harbour and that the harbour serve as the "major doorway to the outside world for Suxichang" (Suxichang dui wai kai fang de zhongyao menhu).56
Since the county was under its administration, Suzhou was given responsibility for planning the harbour and the community around it. But its officials were unenthusiastic.

After several reports we could see that they couldn't see the importance of the project, and that they had a much different viewpoint from the province. They simply didn't do a good job. They send all their export products through Shanghai, so they didn't need this harbour to be developed. They showed little foresight in terms of telecommunications; their report in June 1985 called only for establishing a domestic long distance system for then Shazhou County; international long distance would be handled through Shanghai or Nanjing. Provincial planners were surprised, so the province established its own planning group which proposed a new second-level city and insisted that new industries be established in the harbour town.

Path Dependence in Nantong and Zhangjiagang

Path dependence influenced Nantong's industrial structure, which in turn influenced attitudes towards its development zone. While Nantong had moved successfully from agriculture to light industry through the mid-1980s, limited investment in new technology left it with antiquated industry that was in decline and an industrial structure, based on textiles and food processing, not conducive to producing higher value-added products. Nantong had failed to surpass the peak profit level of 700 million RMB of the mid-1980s because
economic efficiency had been declining since 1982-83 when each RMB invested yielded 2.33 RMB. By 1991 returns to capital had dropped to 1.92 RMB for each RMB invested. Declining profits resulted from increasing inputs, much of which was comprised of imports, and a reliance on extensive, rather than intensive growth. But with city leaders preferring stability in their industrial structure, the city was becoming dependent on imports and foreign loans for its development. Thus many loans taken in the early opening--1984-87--were due in 1991-93 and Nantong lacked the funds to pay them.

Path Dependence and the Nantong Zone

The city's spatial investment decisions suffered from path dependence. Under market conditions, capital should flow to points of "openness," where domestic and international China meet, where transaction costs are lower, and where domestic investors can link with the global market. In fact, most zones in China have relied on domestic investors and enterprises who move to zones to benefit from the less regulated links to the international market. However, Nantong's old industrial base was built up around Tang Za Town, in the northwest of the city, and within the city proper itself, far from the ETDZ which sat 12 kms. away in the southeast corner of the city. As a result, entrenched interests in the city resisted shifting domestic and foreign investment from its traditional industrial base to the new zone.
Nantong utilized the opening to benefit the city rather than the zone in several ways. For six years, Nantong as an OCC was granted the privilege of using domestic currency to purchase US$90 million in foreign exchange from Beijing with which they could buy foreign technology or develop joint ventures. According to the local economic commission, 2/3 of that money went to technical innovation in the factories, while 1/3 was used to import low-priced resources for industrial production. Local researchers, however, argued that Nantong used these funds to subsidize old factories producing old products rather than shift into new exportable products.

In 1992, local officials lamented that decision. "Now we see the need to let products lead our technical innovation. If you buy equipment for old products, even if you reform the equipment in the old sector, you still have the same products." Thus Nantong was still exporting primarily cotton based textiles. SEZO officials concurred.

In 1984 we gave them about $10 million RMB in foreign exchange for updating old equipment. We called it kuo chan wai hui (foreign exchange for expanding production). We gave this money for a few years to transform the old equipment and change the economic structure ... We wanted them to use this money for new export products. But Nantong used the money to support old state enterprises that were not doing very well. They did not use it to open up new areas of production.
This same official, however, felt that Nantong did not have enough money to restructure the economy in any significant way.

A critical issue in the "takeoff stage" (qidong guocheng) is how well do you use funds? Did they invest in good new products that earned good returns, did they get good returns on the new products or not? This is a critical issue, this first stage. But Nantong didn't have enough money to put into new areas of development, they had to use the money that they earned to keep up the old factories, so they couldn't move into export sector firms.66

Similarly, the city did not support the ETDZ very enthusiastically. Because Nantong was opened in 1984-85, at the beginning of the "second wave of reform," 67 concerns that pernicious foreign influences would pollute socialist China influenced the views of local elites who responded cautiously to opportunities under internationalization. So Nantong's zone was build 12 kms outside the city, which without a good road, meant that the zone and city were world's apart.68 As one urban planner commented:

"it is now clear that it is too far from the city. But at that time....our "guiding thought" (zhidao sixiang) was that we wanted to build a separate area to cut off the influence of the foreigners and the capitalistic management systems that we expected to be used in the zone. Initially, we thought that the zone would be all foreigners. Keeping it separate would be good for management (bianyu guanli).

But the zone's location meant that they had to spend 150 million RMB on infrastructure for the zone, including 22 million RMB on the road to town, 10 million RMB on a power transformer sub-station, a US$40 loan from the
Austrian government for the water purification plant (the zone also put in another 20 million RMB of its own), plus another 22 million RMB for a hotel in the zone which as of 1992 absolutely nobody used. Had they put the zone near the city, as with industrial parks established later on, it would have cost about 1/10 the price. Also, because of the distance and efforts of city officials to attract joint ventures to the city center, many foreigners see the distance from the city as an added disincentive to come to the zone.

According to a zone official, city leaders had not used the zone to attract more money. City leaders reportedly felt that if the central government wanted to give the zone money and make it a State Council ETDZ, fine; but rather than use the zone to bring in more money, city officials waited for state largesse. SEZO officials who see the zone as rather weak, argue that

the city government didn't put enough emphasis on the zone, didn't get it investment, and the leadership of the zone was not very strong. Compared to other provinces, Jiangsu didn't put enough emphasis on its zone or give it enough support.... They didn't make the development zone a high enough priority.

Relations between the city and zone were difficult. According to interviews, zone leaders introduced by the city were not members of the city's insider network; as a result, zone leaders built their own network, drawing on administrators from the city's factories, rather than from the city's administrative power structure. As a result, zone leaders were somewhat
independent, but could not rely on city officials for help. City officials were unenthusiastic about promoting the zone, seeing it as a threat, rather than an ally or opportunity; so they prevented the zone from challenging the city and never used it to promote the city's development. Thus, despite their desire for autonomy, zone officials lacked both the finances and the broader network to develop the zone on their own.

Not only did city officials wait for the State Council to assist the zone--since it was a State Council ETDZ, they believed the state would or should continue to fund it--but the city took seven million RMB targeted as a loan for the zone to build the Nantong Hotel, as well as another nine million RMB for other projects. City leaders also steered factories to the city, not the zone, afraid that they would lose the tax base. And for four years they refused to build a good road from the city to the zone. As a result, there were more joint ventures in the city than the zone. One zone official felt that the city should let the foreigners decide themselves where they want to set up their plant. "Let them see our situation, only 15 percent tax, versus 24 percent tax in the city, but maybe they won't like the fact that our zone is so far away."\(^9\)

**Path Dependence and Zhangjiagang's Harbour**

While becoming part of a second level city at the confluence of Zhangjiagang, Jiangyin, and Jinjiang (see map) offered Zhangjiagang autonomy
from Suzhou Municipality, enormous economic, political, and societal forces caused both Zhangjiagang and Suzhou to oppose the plan. As mentioned above, losing the harbour to a new city would damage Suzhou's total output while Zhangjiagang officials opposed moving the government seat from Yangshe Town--the seat of the county government--to the harbour. Government employees would have to move, or travel 18 kms. each day. And if shifting the locus of industrial development to the harbour town undermined economic growth in Yangshe Town, job creation in the town would not keep pace with the expanding labor force. Also, with these factories no longer within their parents' network, children of Zhangjiagang officials would have more difficulty gaining access to these jobs. Zhangjiagang also had just spent 700 million RMB rebuilding Yangshe Town, so why move all the buildings to the harbour? Townships in Zhangjiagang were concerned that domestic enterprises, as well as joint ventures, would move to the zone, undermining their output. So Suzhou and Shazhou County officials asked provincial planners to revise their proposal to the State Council and delete the idea of creating a provincial city. They refused. But by the time the State Council elevated Shazhou County into Zhangjiagang City, provincial officials were surprised to find that their plan had been derailed, and the capital was not placed in the harbour as the province had recommended.
Nevertheless, in his speech in 1988 to the 20th anniversary meeting of
the opening of the harbour, Yang Shoukang, deputy chair of the Zhangjiagang
Harbour Association forcefully emphasized the important role the harbour had
to play in the city's development.

The whole city, from top to bottom, must clearly understand the
leading ideas behind "letting the harbour construct the city, and
letting the city promote the harbour" (yi gang jian shi, yi shi cu
gang), and they must focus most of their work on Zhangjiagang's
harbour district, and put the task of constructing the harbour in an
important position.\textsuperscript{71}

He called on Zhangjiagang officials to invest time, energy, and funds in
promoting the harbour, and to set aside their local interests to promote the
greater good—the harbour.

\textit{It doesn't matter whether in human effort, or material or financial
strength, it must work its way into the various city's units and
various ministry's plans, to resolve and handle the relationship
between the city and the harbour, and assertively serve the
harbour's construction, limit and put an end to arguments over
trifles (du si zhi po), be of one mind and unify efforts, speed up the
installation of a complete system, to meet the needs of the
harbour's development even more rapidly.}\textsuperscript{72}

Clearly, in his eyes, Zhangjiagang officials had not been investing
sufficient time and energy in promoting the harbour, and given the
disincentives to do so raised above, it is little wonder they behaved that way.

Still the new spatial plan for the city gave both Harbour Town and
Yangshe Town—the government seat—a significant role in the city's overall
development. The province built a road from Yangshe Town to the harbour in 1988. Of 11,000 new phones that were installed, 10,000 were placed in Yangshe Town; only 1,000 went to Harbour Town. In 1991, as the new development zone went up in the harbour, a new zone also emerged in Yangshe Town, as did new amenities for foreign investors. Still, Zhangjiagang officials know that major projects will go to the Harbour Town, particularly after the zone earned the status of a national level "duty free port" (bao shiu qu), while smaller projects will go to the government seat. In fact, each bureau in Zhangjiagang was responsible for completing a project in the harbour's zone. Also data on FDI and total investment for 1994 shows that much more money is going into the harbour's zone than the government seat's industrial zone.

Nevertheless, with political power entrenched in Yangshe Town, major projects are still being established in its zone.

Similarly, entrenched interests in townships surrounding the harbour complicated efforts to expand the urban centre needed to support the harbour. Three townships had to contribute land to Harbour Town, but each resisted because to do so would have decreased their local GNP, and therefore their community and leader's status. The alternative strategy—to unite two or three townships into one larger town—faced similar problems, as township leaders bickered over who would be party boss of the new town. Only after Shazhou
County was elevated into Zhangjiagang City did officials in the county-level city have the political clout to overcome the local opposition and simply take land from the adjoining townships to build a new town.

**Leadership Strategies for Development: Expanding the Depth of Internationalization**

ELG has been the hallmark of China's coastal economic boom. Cities that have grown quickly have done so by significantly expanding their global linkages, producing goods explicitly for export, linking with foreign investors to find new international markets, and using new technologies to capture larger shares of the domestic market. Harbour cities were also well positioned to earn wealth by shipping goods in and out of China. Finally, coastal cities were better able than inland ones to benefit from "segmented deregulation" and the bequeathing of "preferential policies," benefits which cut the transaction costs of foreign trade and investment as well as their overall tax rates. Thus leaders should have sought to become "developmental communities," expanding exports, joint ventures, importing new technologies, grabbing more than their share of "deregulated spaces." all the while expanding their domestic and international market share.
Nevertheless, leaders in these two cities differed greatly in their attitude towards transnational exchanges, with leaders in Zhangjiagang far more committed to export-led growth and to utilize fully the opportunities emerging under internationalization. Figure 1 (and table 3), which compare per capita exports and the procurement of export commodities for Nantong and Zhangjiagang, show that Zhangjiagang, while initially far behind Nantong, quickly increased the role of exports in its economy. Data on FDI reflect a similar pattern; as tables 1 and 2 show, Zhangjiagang, a third-level city with one-ninth the population of Nantong, by 1994 had attracted twice as much FDI as the entire municipality of Nantong.\footnote{74} Also, for many years, the role of exports in Nantong's GNP did not increase at all. According to MOFTEC data, exports as a percent of GNP reached a high of 14.7 percent in 1989, dropped to 10.2 percent in 1991, then hovered around 13.5 percent in 1992-93, until 1994 when it jumped to 25.1 percent.\footnote{75} While Zhangjiagang's data may be flawed because of the use of current \textit{RMB}, exports were playing a much more important role in Zhangjiagang's GNP than in Nantong.

Why did this situation occur? First, while Nantong leaders tried to lure foreigners to invest in their SOEs, a strategy which through the 1980s attracted little FDI, Zhangjiagang's leaders pushed their TVEs into the export sector--utilizing their cheap labour--and enticed hundreds of foreign investors to invest
in these TVEs. In fact, in 1988 Zhangjiagang was criticized by some provincial ministries and other municipal leaders in Jiangsu Province for establishing too many joint ventures. However, officials in COFERT's Foreign Investment Bureau and the provincial vice-governor responsible for the "open policy" praised them, arguing instead that other regions in the province should learn from them. Only after 1991, as they witnessed the growth of FDI in TVEs in Sunan, did Nantong leaders employ their TVEs' comparative advantage in attracting FDI and market them as viable partners for foreign investors.

**Leadership Problems in Nantong**

In China, development remains highly constrained by a plethora of administrative and ideological constraints. Entrepreneurial leadership's main role is to break those administrative barriers to resolve collective action problems, to rally local elites, build strong local and nationwide networks, and to seek new market share wherever it may lie. Nantong leaders clearly failed in this regard, unable to build any type of coalition between leaders in the traditional economic sectors and those in more internationalized sectors. Before 1992, Nantong's leaders were plagued by ideological conservatism, and compared to leaders in Sunan, were not aggressive enough in utilizing their opportunities and seeking new ones in the highly competitive coastal economy. Thus as we saw, they built their zone far from the city to prevent its pernicious
influence from poisoning Nantong's socialist nature; and as a result it played a negligible role in the local economy through 1992.

Nantong's response to the 1988-89 economic retrenchment and the political conservatism that swept China after Tiananmen typifies its perspective at that time. In July 1990, Nantong institutionalized the ability of cautious thinking to influence its administrative structure and decision making when it established a "Decision-Making Consulting Committee" (juece zixun weiyuanhui) to guide city leaders on all major domestic and international investment projects. After 1989, when the city changed its mayor, a perception emerged that frequent leadership changes and a lack of continuity in leadership had allowed people unfamiliar with the city's development to come to power. The committee included many retired cadres (33 of approximately 60 members), with supplemental participation by officials from the planning, economic, and foreign trade commissions. Scholars and specialists were also included. Because this committee was composed of many people outside officials posts, they were expected to be more practical and suffer less from "departmentalism" than bureaucrats who pursued their own bureau's self-interest. However, they hesitated to accept new ideas, greatly increasing the time needed to approve foreign investment projects.
Nantong's inability to resolve collective action problems manifested in many small ways. A patch of road from the zone to the harbour runs through Nantong County. But the zone pays taxes to the city, not the county, so county officials refused to finish the road. But Nantong leaders never resolved this problem. As of 1992, a short stretch of the route from the zone to Nantong harbour is of dirt, turns to mud in the rain, and remains replete with enormous bumps that convince foreign investors that Nantong is not serious about internationalization.

Nantong's harbour fell behind in the 1980s because of the misinvestment of time and energy in a prospective joint venture harbour—years before joint venture harbours were really plausible. But Nantong officials knew the Ministry would not give their joint venture's berths any cargo, and although they did not tell the Dutch, they realized the plan would not work. Yet during the four years that Nantong negotiated, Zhangjiagang, across the river put in a new container harbour, leaving Nantong's shipping in an uncompetitive and vulnerable state. The fact that as of 1992 Nantong had no container facilities has hurt their shipping greatly. Expanding highways and greater regional economic integration increased the role of container shipping in China significantly. Today, international shipping relies almost totally on container harbours. As a result, two-thirds of Nantong's own exports go through other
harbours, including Zhangjiagang, its major competitor within the province, where goods can be loaded onto container ships.

Growth and Development in Nantong: Using their Special Policies

Yet Nantong leaders did use their preferential policies to try to attract domestic firms from outside the city to relocate their production in the zone.\footnote{79} One factory director in the zone confirmed that these preferential policies were a major reason for relocating in the zone.\footnote{80} Key incentives included waving all export taxes if 20 percent of the goods' value was added on in the factory in the zone.\footnote{81} In some cases, production taxes could be waved entirely, especially if firms could argue that they were experiencing economic difficulties.\footnote{82}

However, in order to placate the localities whose tax base suffered when these firms moved to Nantong, the city promised to return some of the finances to them.\footnote{83} As a result of this conscious strategy, and under the liberalizing trend of Deng's 1992 "trip south" (nan xun), the number of domestic firms increased dramatically in 1992, when Nantong's zone signed 554 new contracts of which only 45 were foreign investment enterprises (table 5). This trend may be a problem, however, as the 1994 MOFERT Yearbook did not report the number of domestic firms that entered the zone, listing instead only the 32 of foreign ones that did.
As a State Council ETDZ, Nantong zone was allowed to establish an import-export company which let it become an entrepot through which firms in the surrounding areas shipped their goods out of China. Thus one small workshop in the zone processed exports for a conglomerate of 17 county-owned firms which simply sewed labels onto pre-fabricated clothes. According to interviews in the zone, about 40-50 percent of exports from the zone come from firms outside the zone. As Table 5 shows, this ratio varied considerably from year to year with exports from the zone outpacing industrial output within the zone in 1987, 1988, and 1991. Nantong zone's export companies also shared their export power with enterprises that wanted to handle their own exports. According to one firm that came to the zone to serve as an export channel,

> We have no export power but we do our own exports. Trade Bureau No. 1 in the zone lets us do our own exports--they simply stamp the paperwork. They have a rule that if you earn US$ 2-3 million/year, they will give you this export power. They still control the macro-economic factors, keeping track of how much is exported, but they give us the power to do this.

Shipments of goods through the harbour increased significantly throughout the 1980s. Between 1981 and 1991, Nantong Customs reported a ten-fold increase in total shipping from 160,190 tons to 1,600,091 tons (although total tonnage based on Harbour Commission data from 1983-1991
did not increase so dramatically). Imports, exports, and total shipping all peaked in 1988, although trends were again on an upward trajectory by 1991. Still through 1989, Nantong's harbour imported many more goods than it exported, a reflection of the weakness of the economic hinterland behind the city. Yet by 1994, only 16 percent of all tonnage passing through the harbour involved foreign trade, again reflecting the low level of internationalization in this "open" city. Still, once the central government approved the construction of Nantong airport, leaders mobilized the capital to build it. Since delays by the central government and increased material costs had more than doubled the project's bill from 50 to 120 million RMB, the city had to borrow money from all its factories, and took a 10 million RMB loan from the province and a 20 million RMB loan from the People's Bank to come up with the funds.

Thus, despite many difficulties and a chorus of critics, Nantong grew reasonably quickly, and after a new mayor came to power, picked up speed significantly after 1992, albeit at a pace which pales compared to localities in Suzhou. As Table 1 shows, GNP between 1978 and 1994 increased at an average annual rate of 12.6 percent/year, the same as the national average, but below Zhangjiagang which grew at 25.5 percent/year. Nantong did get its share of the FDI boom that hit China in 1993-94, and its exports, in US$ grew 20.4 percent/year in 1988-94. (Zhangjiagang's grew 58.5 percent/year in 1990-
Moreover, Nantong’s exports as a percent of GNP jumped from 13.9 percent in 1993 to 25.6 percent in 1994, a sign that its economy was becoming more globally integrated. Finally, beginning in 1994, Nantong began to turn its coastline—the harbour, the ETDZ, its shipbuilding facilities and some tourist sites—into the core of its new outward oriented development strategy, and therefore competed fiercely with Zhangjiagang for additional funds for harbour development.

Nevertheless, due to constraints, path dependence, and weak and cautious leadership Nantong failed for a long time to take advantage of the opportunities granted to it by the central government and by its position as one of China’s 14 OCCs. Moreover, because it benefitted from many preferential policies, as well as financial assistance from SEZO and the province, it is hard to assert that the central government constrained Nantong in ways that it did inland cities such as Wuhan. So, while Solinger rightfully argues that many cities that responded slowly to internationalization were not deficient in leadership but simply lacked "policies" (zhengce), Nantong does not quite suffer from what she so astutely calls "comparative disadvantages." No doubt, its location on the north side of the Yangzi River, across from one of the fastest growing centres in all of China, created great competition for Nantong. Its harbour and airport were held back by supralocal authorities. Its agricultural
hinterland is not conducive to industrial restructuring. Nevertheless, when one compares its record, Nantong’s limitations appear in large part to have been due to weak, hesitant leadership that failed to use its opportunities to break out of its institutional constraints and to link as forcefully as possible with the external markets and capital.

**Zhangjiagang’s Opportunities and Endowments**

Zhangjiagang, on the other hand, has been one of the fastest growing and most opportunistic communities in China. Its location on the south side of the Yangzi River, making it the harbour for Suzan, and the access the harbour offered to the outside world, helped Zhangjiagang establish itself as a "linkage community" on China's boundary with the outside world. As a "national-level" harbour, it received national, provincial, and regional financial support, including container equipment, which transformed its import/export facilities. As home to a national level harbour, it moved up in the hierarchy of urban places, becoming a county-level city in December 1986 before its more industrialized neighbours, Jiangyin and Changshu counties. Also, new access routes were needed to move goods inland, leading to new roads and rail links from Wuxi and Suzhou that improved transportation for the entire community.
Zhangjiagang received preferential policies—the right to approve larger FDI projects than its urban status as a third-level city dictated—when in 1991, the head of the Foreign Investment Bureau in Jiangsu COFERT, at a meeting of the 17 county-level cities in the province, announced that Zhangjiagang was to be placed in the provincial plan for FDI, allowing it to approve most of its own projects. This preferential treatment is the result of good relations official in the provincial government committed to ELG. Thereafter, Zhangjiagang needed only to send the decision to the Foreign Investment Bureau in Nanjing for checking and final approval, greatly simplifying the approval process. As we can see from table 2, FDI in Zhangjiagang took off in 1992-93.

Its industrial structure based on TVEs increased its level of global integration. TVEs exist beyond the purview of the plan and rely less on supra-local power authorities which affords them more freedom to pursue market transactions. Local elites have clearer ownership rights over the profits of TVEs than they do over SOEs, giving them greater incentives to respond to global market opportunities. Also, by working with TVES, foreigners deal directly with the defacto owner of the enterprise, the township or village party secretary. TVEs also saw their domestic market cut out from under their feet in 1988-90 during the economic retrenchment, which pushed them to seek a second market. Worker discipline tends to be better in TVEs than SOEs.
Finally internationalization helps them evade their major constraint in foreign trade—the trade bureaucracy’s efforts to limit their direct contacts with foreign markets. By setting up joint ventures, Zhangjiagang’s TVEs established direct export channels, increased their access to global market information, and removed the middlemen and their fees in foreign trade transactions.

By these moves, Zhangjiagang’s leaders demonstrated far-sightedness, recognizing the importance of transnational linkages for their community’s economic development. As public entrepreneurs, they introduced an export-led growth strategy and generated a normative environment that increased the likelihood that their agents—township and village officials—would respond to their commands. While Nantong officials cut the number of TVEs in 1989, Zhangjiagang officials refocused their annual January planning meeting from agriculture to promoting exports from their TVEs. They rewarded local officials with bonuses and subsidies, intensifying inter-township competition, as each sought to expand exports and establish joint ventures in order to prove their loyalty and advance their own careers. Using the organizational advantages of being a county-level city, which unlike prefectural cities has no administrative level between city officials and township leaders, they mobilized the entire community to follow an ELGi strategy. They even seconded city leaders to the townships to insure their strategy was implemented.
Zhangjiagang officials would have made Schumpeter proud. According to the national government's plan, foreign factories were to produce for the foreign market; domestic enterprises were to function in a protected domestic market. But entrepreneurs find opportunity in destroying such an equilibrium, as the disjunction in prices and quality of products—domestic prices are high and the quality of products is low—allows high quality products from joint ventures access to very significant extra-normal profits, if they can enter the domestic market.

Indeed, Zhangjiagang officials recognized the short-term nature of these profitable endeavours and offered foreign investors access to the domestic market in return for foreign technology and global markets. Also, aware that their joint venture's products were far more competitive than those produced in SOEs, they, as partners in these joint ventures, would share in the spoils of the suddenly vulnerable domestic market. They also understood the importance of technical transfer as a means of improving their firms' technological level and moving up the product cycle. As one official remarked, "we want to be part of the Second World; internal China can be part of the Third World."

Zhangjiagang officials constantly seek preferential policies, particularly spatial exemptions and deregulations that come with "openness." In October 1992, because of their harbour, its development zone, the city's rapid growth,
and lobbying by friends and allies, Zhangjiagang was one of 13 Chinese cities to be awarded a "bonded, duty-free zone," the most recent stage in China's spatial deregulations and openings. Within this zone, products which employ foreign inputs, can be manufactured tax free--no import, production, or export taxes--so long as they are shipped out again. Zhangjiagang has also built a "technology highway" leading to the zone where it is attempting to establish cutting edge industries.

Finally, in 1995, Zhangjiagang tied its wagon to the current campaign to promote "spiritual civilization," which is the core of Party Secretary Jiang Zemin's own strategy for securing his leadership position and stabilizing a Chinese society undergoing rapid economic development. Beginning in 1994, Qin Chenghua, the party secretary of Zhangjiagang, following a form of "neo-authoritarian developmentalism," mobilized the entire community for a new normative drive, recreating a "Singapore model with Chinese characteristics." In 1995, Zhangjiagang offered itself and was warmly received as a model for maximizing economic development, all the while maintaining CCP control and worker discipline. Top leaders, including Jiang Zemin, Li Peng, Qiao Shi, and others have visited Zhangjiagang, while local leaders nationwide have visited Zhangjiagang to learn from its experience. The CCP Propaganda Department and the Office of the State Council (Bangongwei) convened 11 meetings
there,\textsuperscript{99} and the Chinese press lauded Zhangjiagang's accomplishments in both economic and moral development.\textsuperscript{100} No doubt, as with national models, such as Dazhai and Daqing, before it, significant financial and material benefits accrue to communities that link themselves to national politics and central campaigns.\textsuperscript{101} The risk of course is what happens when the campaign, having run its course, is found to be problematic, and the models of one political line become the targets of the next one.

\textbf{Conclusion}

China's coastal cities are booming. The macro-economic conditions fuelling that growth include: the transfer of a large labour force from agriculture to industry; preferential policies, such as tax rebates and special deductions for foreign transactions; new opportunities for foreign trade and the decreased transaction costs of foreign commerce created by improved infrastructure; and new domestic and foreign investments which is flooding into these coastal regions. These opportunities simply have not been available to inland cities whose economic opportunities have been greatly constrained by the policies of the central government in Beijing.

Yet within coastal areas, variations exist in the level of constraints, endowments, and opportunities, and in the capabilities of cities and leaders to increase the pace of economic development. But as a mixed economy, driven
by both administrative controls and domestic and global market forces, China's economy remains quixotic; despite consistent macro-economic growth which rewards comparative advantage, opportunities for truly rapid development come in spurts—when the central government decides to build a new harbour, give a community a World Bank loan, or grant a new form of spatial deregulation, such as a development zone, a high tech zone, or a free trade zone. Critical choices or missed opportunities in one year have long-term implications and can retard future development. Cities that overcome constraints, and the socio-political path dependence that would otherwise limit their ability to transfer resources into sectors linked to the global economy, can use their endowments to catch the next wave of domestic deregulation, government allocations, or foreign investments which can bring profitable returns in the medium-term. Hesitancy, on the other hand, can be disastrous, since central funds or preferential policies may suddenly become unavailable as the next round of retrenchment unfolds. Entrepreneurial leadership, not just serendipity, determines which communities catch those waves.

On the other hand, even on the coast, some communities suffer more than others from state-imposed "comparative disadvantage." Suffocated by constraints imposed by higher level power authorities, these communities cannot take full advantage of their endowments, which under more open,
market conditions might generate opportunity and growth. Perhaps their tax burdens to upper level bureaucrats are too great, leaving them little capital to shift into export-led growth. Or perhaps a neighbouring municipality with administrative authority over resources prevents such transfers out of fear of competition.104

The stories of Zhangjiagang and Nantong's comparative development sustains this portrait of the development process. Zhangjiagang's location, and therefore its harbour, provided a more valuable endowment than Nantong's. Its richer hinterland--the booming cities of Wuxi, Changzhou, and Suzhou, and particularly the former two--created strong demand for upgrading its harbour's facilities. And while nantong seemed to squander some of its competitive advantages, such as its ETZ, Zhangjiagang caught up quickly and today, with its "bonded free zone," it has attracted a great deal of new FDI.

Though in the late 1970s, and even as of the mid-1980s, Zhangjiagang's industrial base was far weaker than Nantong's (tables 1 and 2), TVEs have proved far more adaptive than SOEs under China's evolving globalized market economy. thus in 1978, while Zhangjiagang's gross value of industrial output (GVIO) was only 10 percent of Nantong's, and only 27.9 percent as of 1985, by 1990 it was 38.6 percent, and by 1995 was now 75.6 percent, quite a
remarkable narrowing, especially given the fact that Zhangjiagang has only 10 percent of Nantong's population (table 8).

Clearly, leadership and leadership networks played an important role in Zhangjiagang's remarkable growth, as it benefitted from a host of preferential policies bequeathed to it by provincial officials, such as special FDI approval rights and the bonded duty-free zone. How much more significant these factors were, since many of these benefits flowed to Zhangjiagang, even as nantong's leaders were trying to turn back the clock on marketization and internationalization in the late 1980s and early 1990s.

Yet comparing the two communities also yields interesting counterfactual insights. The blessing of being an open coastal city in 1984 should have enriched Nantong--capital and preferential policies in the form of an ETDZ were forthcoming. But in 1984, cautious leadership, which reflected the more conservative national and provincial views still prevalent at that time, isolated Nantong's zone from the city's economy both economically and spatially, failed to attract much foreign capital, and prevented a major transformation of Nantong's industrial structure into more exportable and higher value-added commodities. In many ways, Nantong's policy benefits came too early, before Nantong (and many other coastal cities in China) were ready to utilize them fully. Its harbour, which contributes to its economic
growth, wasted four years in a then fruitless effort to create a joint venture
harbour. As a result, it missed the opportunity to expand its container capacity,
a benefit endowed upon Zhangjiagang across the river. Also by 1992, when
Nantong really began to open up, competitors on the south side of the river—all
the counties and county-level cities around Suzhou, as well as Suzhou itself—
were booming, attracting most of the foreign capital coming into the province.
As a result, Nantong did not gain the benefits in terms of economic growth that
greater internationalization might have brought.

Since 1992, as the macro-economic environment liberalized further,
Nantong has done well. Its leadership under a new party secretary has become
more aggressive, more competitive. In 1994, they greatly increased the role of
exports in their GNP. Their growth rate has been consistently high. But the
same is true for almost all coastal cities; as a result, they remain an average city
in a rapidly developing part of China.

Zhangjiagang's deeper internationalization began much later, around
1987-88, once the central government allowed townships in the counties in the
"golden triangle" to host FDI. But their location on the south side of the river,
with the hinterland of Sunan, and an industrial structure more conducive to
ELG, gave Zhangjiagang more beneficial endowments than Nantong. For its
leaders, internationalization was neither a burden nor a benefit to simply take in
stride; it was a brilliant opportunity for self-enrichment for a community that had felt excluded from the beneficence of Suzhou Municipality. While the harbour brought transnational links for its TVEs, based on their cheaper exports, foreign investors permitted Zhangjiagang to circumvent administrative constraints imposed by Suzhou municipality and the foreign trade bureaucracy. Suddenly, Zhangjiagang could deal with the province and with the world. And despite its own path dependence, which made it hesitate to shift all its investments towards the harbour, external forces such as provincial leaders who hungered for a provincial harbour that could liberate them from Shanghai’s controls and allow them to handle ocean-going vessels directly, propelled growth at Zhangjiagang. Provincial officials, too, helped Zhangjiagang lobby for the last wave of preferential policies—the bonded duty free zone.

But entrepreneurs always seek new opportunities; so it was with Zhangjiagang. Soon after getting the duty-free zone, they found a new opportunity that could increase national-level support for their community by meshing political authoritarianism, moral incantations, and economic growth, thereby linking their own political future to the neo-authoritarian model favoured by the central party apparatus. After such lofty linkages, one cannot imagine where they will turn next.
ENDNOTES


9. For a discussion of global openings to foreign investment as a form of "exemption" from legal restrictions, see Jeswald W. Salacuse, "Foreign Investment and Legislative Exemptions in Egypt: Needed Stimulus or New Capitulations," in Laurence O. Michalak and Jeswald W. Salacuse, eds., Social Legislation in the Contemporary Middle East (Berkeley: Institute of International Studies, University of California, 1986), pp. 241-61. See also my own,
"Segmented Deregulation" and the Politics of Urban Internationalization," which will become chapter 3 in my current book project, entitled Linking China with the World.


15. Cities and economic and technical development zones could exist in a rather conflictary, zero-sum mode, vis a' vis the neighbouring city, as funds allocated for the zone limit funds for resuscitating the city's urban factories. Also, serious competition could emerge among factories in these localities.


18. While county governments could not impose solutions on townships that might be in conflict over land reallocations, once the county was elevated to a "county-level" city, the same administrator could now do so.

19. For example, while a county had to work through a prefecture or municipality if it wanted provincial resources, rising to a "county-level city" allowed it to deal directly with the province. Similarly, a province could establish a project directly in a "county-level city," while if it was trying to help a county, it would have to give the funds to the municipality or the prefecture and hope they would spend them in the county. Interview in Jiangsu, 1991.


22. For a discussion of the policy process by which these preferential policies were granted see Jude Howell, China Opens Its Door: The Politics of Economic Transition (Boulder, CO: Lynne Reinner Publishers, 1993). For a discussion of many of these benefits, see the Introduction to this volume.


24. "Extra-normal profits" are short-term profits that result from some innovation which allows a firm to be the sole proprietor of some product. Until competitors emulate that process or product, the firm gets much higher profits. This is distinct from "rents" which involve some administrative constraints which create and or preserve the higher profits.

25. Research funds were provided by two grants, one from the Committee on Scholarly Communication with China, Washington, D.C., and a second from the Social Science and Humanities Research Council, Ottawa, Ontario.


31. Yanhai, yanjiang, yanbian kaifang, p. 316.

32. Beginning in 1985, this process occurred in seven stages, with 1,199 towns being so recognized by the end of 1991. Initially formal guidelines were established. These included an urban population of 5,000 people, industrial production of 50 million RMB, and exports of 5 million RMB. But because it would take too long for many towns to attain that level, the standards were dropped. Interview JiaOpPol-91.int

34. Changzhou and Wuxi have much smaller populations than Nantong.

35. The $R^2$ between DATE OPENED and industrial production and the number of FDI contracts was .81, while that between DATE OPENED plus township and village industrial output and the number of FDI contracts was .86.


38. Some enterprises control their own 10,000 ton berths, such as the grain bureau, the coal bureau, the oil company, and Nantong Shipping Repair.


40. According to a provincial official: "No other cities in the province got this money. We had lots of places to spend money but we spent it here [Nantong and Lianyungang] because of the open policy." Interview Jiaoppol-91.int.

41. Interview Jiaoppol-91. int.

42. Interview ERCNT-6/92

43. While officials in Nantong complained of having so little money, it is worth noting that in 1991, Wuhan had only 1 59 billion RMB for local expenditure, which given its size, population, and urban demand was far less money than available to Nantong. See Solinger, "Despite Decentralisation," p. 23.

44. There is a serious problem here with the data, as all these cities have important "extra-budgetary funds" which do not show up in the statistical yearbooks. But in many ways, the state may compensate for that when it calculates the "local finances that should be passed up," which in the case of Wuxi in 1991 was an amazing 91 percent of its official "income" (shou ru). Thus Wuxi's real shou ru is probably much higher, and the province does not really take away 91 percent of its income. Moreover, if one looks at the "amount of funds to be passed up" as compared to a community's "after expenses income" (shou ru minus its zhi chu), the state is taking away more
than the amount of funds left to a city. If these data are to be believed, the province must be tapping into "extra-budgetary funds."

45. Perhaps as an OCC, Nantong was allowed to reinvest more of its income. Or, perhaps because cities which relied on TVEs were expected to be hiding so much of their income, the province demanded a higher percent of their visible income.


49. Perhaps they could do so through their influence within the CAAC.


51. Based on 1990 data from the *Jiangsu tongji nianjian, 1991*, Suzhou's GNI was 17.884 billion RMB, while Wuxi's GNI was 13.474 billion RMB. Should Zhangjiagang, whose GNI in 1990 was 2.444 billion RMB shift from Suzhou's to Wuxi's administration, Suzhou's GNI would drop to 15.440 billion RMB, while Wuxi's would increase to 15.918 billion RMB. See Jiangsu Statistical Bureau, ed., *Jiangsu tongji nianjian, 1991* (China Statistical Publishing House, 1991), p. 331.

52. This information is based on interviews with officials in the Planning Bureau of the provincial Ministry of Construction, and with geographers at Nanjing University.

53. According to a provincial official involved in promoting S&T investment projects, it was only after this change that he could make direct investments in the new "city," without having to give the money to Suzhou Municipality.


55. See Yang Shoukai, "Yi gang xing cheng, yi cheng cu gang: ba Zhangjiagang shi jiancheng xiandaihua de gangko chengshi" (Let the harbour develop the city, and the city promote the harbour: Turning Zhangjiagang City into a modern port city), in "Special edition to celebrate," pp. 23-6.

56. This man had been the head of the provincial planning commission and responsible for foreign investment in the province.

57. Interview with urban planning officials in Jiangsu, 1992.


60. Zhang, "The characteristics and restructuring strategy."


62. Reportedly, Nantong could only pay for 50-60 percent of its imports with exports, so it needed loans as well to keep the balance.

63. Frieden and Rogowski, "The impact of the international economy on national policies."


65. While 12 kms. may not seem a great distance, and when compared to Qingdao's zone which was 35 kms. away on an island is not that far, Nantong's
zone was psychologically far away and had not been linked to the city by a
good road for six years after it opened.

66. Interview ERCNT-6/92.

67. Carol Lee Hamrin, China and the Challenge of the Future (Boulder:

68. In fact, most zones built in the earlier period were constructed farther away
from the city centres.

69. Here he was probably referring to the tax rates in the two localities which
would go into effect after the initial two years of tax free development and
three years of half-taxes in the zone. However, the two years tax free, three
years half tax opportunity was reserved supposedly only for firms that made a
commitment of over 15 years to the zone.

70. Interview ZJGCXGHJS-91.

71. Yang, "Let the harbour develop the city," p. 24. This is the author's
translation.


73. Zweig, "Developmental Communities on China's Rural Coast."

74. Other indicators of internationalization, such as exports as a percent of
GNP, is much more problematic as the data are highly suspect. While the data
for Zhangjiagang seemed appropriate to me, I recognize that there are problems
in using current RMB for export purchases, even if GNP is also recorded in
current RMB. Thus based on my own calculations export purchases as a
percent of GNP in Nantong was over 61 percent in 1993, a figure that is simply
impossible. In fact, MOFTEC reports that exports were only 13.69 percent of
GNP in 1993. Similarly, in 1995, Zhangjiagang's reported purchases of export
commodities in current RMB was greater than its entire GNP.

75. See various Ministry of Foreign Economic Relations and Trade Yearbooks
which report Nantong data since it is an OCC.

76. Interview in Nanjing with provincial trade officials, 1992.
77. Perhaps they were trying to mirror conditions in Beijing where the eight "immortals" had reemerged in 1989 to determine the outcome of political and economic events.

78. Only in 1993-4 was Shanghai able to establish the first joint venture harbour with Hutchinson Whampoa of Hong Kong. Since then other cities, including Wuhan and Zhangjiagang, have struck deals with foreign investors for harbour development, but it was only after Deng's trip south in spring 1992 spurred on China's opening that the idea of joint venture harbours could reach fruition.

79. Most high tech zones worldwide do not create new production but instead attract factories from other parts of the country through their new, modern infrastructure as well as the synergy that develops when enterprises are in close proximity. See Doreen Massey, Paul Quiontas and David Wield, High-Tech Fantasies: Science Parks in Society, Science and Space (London: Routledge, 1992).


81. See "Nantong Shi renmin zhengfu guanyu diu Nantong Shi jingji jishu kaifa qu de neitian qiye shixing youhui de zen xing guiding" (Temporary regulations of the Nantong City government concerning preferential policies given to domestically linked firms of the Nantong City Economic and Technical Development Zone), 20 April 1988, in Compendium, pp. 1801-03.

82. Compendium, p. 1801.

83. Compendium, p. 1801.


85. See Shen Suxin and Li Shaobin, "Jianshe xiandaihua xin cheng qu--Nantong kaifa qu tiaozheng fazhan zhanlue liang nian shuyao" (Build a modern new urban district--the two year results of Nantong Zone's adjustment in its development strategy), Waijing daobao (Foreign economic report), May 1995, pp. 14-15.

87. According to one analyst, the city beside a national-level harbour should always be a provincial or second-level city. No doubt, that is why there was pressure to build a new city composed of Zhangjiagang, Jiangyin, and Jingjiang.

88. While provincial leaders might have preferred to build up Nanjing harbour, next to the provincial capital, they could not do so. The Nanjing Bridge, constructed during the 1958 Great Leap Forward, is too low to allow ships over 10,000 tons to pass underneath. They must load their cargo onto smaller ships of 5-10,000 tons to get their goods upstream. Much of that unloading occurs at Zhangjiagang, not Nantong.

89. The vice governor in 1992 responsible for the external opening, Gao Dezhen, was a party secretary in Shazhou County and had been Party Secretary of Suzhou in 1988 when the municipality began to turn outward.


93. Zweig, "Developmental Communities."


95. Schneider and Teske, eds., *Public Entrepreneurs*.

96. Duty free zones afford ample opportunity for smuggling, as imported goods that are to be reprocessed and exported actually disappear into the domestic
market duty free. By underreporting the level of productive efficiency in such zones, and inflating the production costs of reexported goods, communities can hide the value of the goods that are snuck out of the zone and into the domestic economy duty-free.


98. According to sources in Hong Kong, Zhu Rongji is the only senior leader not to visit Zhangjiagang. Reportedly, he has refused to visit because they refuse to repay bank loans they made.


100. See Renmin ribao, 20 October 1995, p. 3; 24 October 1995, p. 3; and 27 October 1995, p. 3.

101. Edward Friedman, article on Dazhai in national politics, The China Quarterly.

102. For an argument that China's opening has followed a wave-like pattern see Howell, China Opens Its Door.

103. Solinger, "Despite Decentralization "

104. A good example is the relationship between Yantai and Weihai, cities of somewhat comparable endowments and size. Yantai was a municipality with administrative authority over Weihai. Initially, it fought to stop Weihai from becoming an OCC because it feared the competition for domestic resources and FDI that would result.
Table 1.


<table>
<thead>
<tr>
<th>Year</th>
<th>GNP* (100 mil. RMB)</th>
<th>GVIO* (billion RMB)</th>
<th>Export10 (100 mil. RMB)</th>
<th>FDI (mil. US$)</th>
<th>Foreign Trade10 Exports (mil. US$)</th>
<th>Imports (mil. US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>27.85</td>
<td>5.04</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1984</td>
<td>53.50</td>
<td>10.93</td>
<td>7.25</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>64.66</td>
<td>13.63</td>
<td>7.41</td>
<td>61.86</td>
<td>12.95</td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>115.48</td>
<td>22.83</td>
<td>17.16</td>
<td>78.75</td>
<td>26.52</td>
<td>260.28</td>
</tr>
<tr>
<td>1990</td>
<td>127.45</td>
<td>24.16</td>
<td>33.986</td>
<td>51.38</td>
<td>42.16</td>
<td>34.02</td>
</tr>
<tr>
<td>1992</td>
<td>180.48</td>
<td>35.15</td>
<td>85.38</td>
<td>306.28</td>
<td>60.39</td>
<td>398</td>
</tr>
<tr>
<td>1993</td>
<td>194.56</td>
<td>50.82</td>
<td>149.00</td>
<td>556.98</td>
<td>147.01</td>
<td>556</td>
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<tr>
<td>19941</td>
<td>216.22</td>
<td>75.68</td>
<td>193.95</td>
<td>599.92</td>
<td>323.40</td>
<td>954</td>
</tr>
</tbody>
</table>

Sources:
4 Various Almanac of China’s Foreign Economic Relations of Trade. Local data received in Nantong in 1992 reported 1990 export purchases, as 2.016 billion, not 3.398 billion RMB. Similarly local data for 1985 was 386 billion, not 741 billion as reported by Lishide Zuo biao.
6 Zhongguo duilai jingji maoyi nianjian, 1989, p. 213.
7 Zhongguo duilai jingji maoyi nianjian, 1984, p. 198.

Notes:
1 Zhongguo duilai jingji maoyi nianjian, 1991, reported total Foreign trade for 1990 as US$385 million, but the following year’s yearbook adjusted that figure to $190 million saying that US$195 million of this value had been earned by “joint operation” (lian yin).
3 Zhongguo duilai jingji maoyi nianjian, 1990 reported procurement export sales for 1988 at 1.651 billion RMB, less than those reported by Nantong shi xian, shehui jingji yilan, 1949-92.
4 Duilai maoyi nianjian, 1989 lists 1988 contracted FDI as US$69.35 million of which $5.2 million was in government loans, and utilized FDI as US$27.47 million.
6 GNP for 1978-1992 is in 1990 RMB.
7 Gross Value of Industrial Output is in current RMB. 1994 GVIO in 1990 current RMB was reported as 70.87 billion RMB.
8 Values reported in planned priced (jihua jia).
9 Nantong shi shehui jingji tongji nianjian, 1994 reported utilized FDI in 1994 as 290.222 million RMB and 269.52 RMB for 1993.
10 Export purchases for 1978-1994 are in current RMB.
Table 2.

Production, Trade and Investment Data for Zhangjiagang, 1978-1995

<table>
<thead>
<tr>
<th>Year</th>
<th>GNP (million RMB)</th>
<th>GVIO (million RMB)</th>
<th>Value of Export Commodities Purchased (million RMB)</th>
<th>FDI (million US)</th>
<th>Foreign Trade(^1) (million US)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Contracted</td>
<td>Utilized</td>
</tr>
<tr>
<td>1978</td>
<td>324.43</td>
<td>505.19</td>
<td>18.14</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1984</td>
<td>890.02</td>
<td>2339.31</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1985</td>
<td>1286.53</td>
<td>3806.82</td>
<td>71.81</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1988</td>
<td>2262.28</td>
<td>7312.08</td>
<td>0.27</td>
<td>0.27</td>
<td>n.a.</td>
</tr>
<tr>
<td>1990</td>
<td>2782.07</td>
<td>9387.05</td>
<td>479.42</td>
<td>21.59</td>
<td>8.75</td>
</tr>
<tr>
<td>1992</td>
<td>6317.02</td>
<td>22007.99</td>
<td>793.28</td>
<td>25.09</td>
<td>9.82</td>
</tr>
<tr>
<td>1993</td>
<td>10279.49(^2)</td>
<td>35207.15</td>
<td>3705.00</td>
<td>994.27</td>
<td>198.42</td>
</tr>
<tr>
<td>1994</td>
<td>15250.49(^2)</td>
<td>49079.45</td>
<td>n.a.</td>
<td>1114.95</td>
<td>359.10</td>
</tr>
<tr>
<td>1995</td>
<td>19101.29(^2)</td>
<td>57237.51</td>
<td>n.a.</td>
<td>1201.17</td>
<td>579.69</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1010.55</td>
<td>599.80</td>
</tr>
</tbody>
</table>

Sources:

Notes:
1. Includes total value of imports and exports by local trade companies (*dijing ziyang jincha kou zonge*).
2. Data reported are GDP figures, not GNP, which was no longer available.
<table>
<thead>
<tr>
<th>Year</th>
<th>Zhangjiagang&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Nantong Municipality&lt;sup&gt;b&lt;/sup&gt;</th>
<th>Zhangjiagang Per Capita Exports as a Percent of Nantong Per Capita Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
<td>79.34</td>
<td>105.42</td>
<td>75</td>
</tr>
<tr>
<td>1985</td>
<td>94.46</td>
<td>120.27</td>
<td>78</td>
</tr>
<tr>
<td>1986</td>
<td>162.99</td>
<td>146.82</td>
<td>110</td>
</tr>
<tr>
<td>1987</td>
<td>364.48</td>
<td>178.11</td>
<td>204</td>
</tr>
<tr>
<td>1988</td>
<td>639.67</td>
<td>216.62</td>
<td>295</td>
</tr>
<tr>
<td>1989</td>
<td>796.79</td>
<td>220.93</td>
<td>360</td>
</tr>
<tr>
<td>1990</td>
<td>1,135.45</td>
<td>259.83</td>
<td>439</td>
</tr>
<tr>
<td>1991</td>
<td>1,399.29</td>
<td>393.75</td>
<td>356</td>
</tr>
<tr>
<td>1992</td>
<td>4,389.09&lt;sup&gt;c&lt;/sup&gt;</td>
<td>977.86</td>
<td>448</td>
</tr>
</tbody>
</table>

**Sources:**

<sup>a</sup> Calculated from data supplied in Zhangjiagang by the Zhangjiagang Statistical Bureau, 1991, 1992.

<sup>b</sup> Calculated from data supplied by the Nantong Office of Foreign Affairs, from the Nantong Statistical Bureau, 1992.

<sup>c</sup> Calculated from data from the *Suzhou tongji nianjian, 1993* (Suzhou Statistical Yearbook), p. 238.

**Note:** Exports here refers to procurements in RMB by foreign trade companies of goods that are exported from China.
Table 4

Direct Foreign Investment in Jiangsu Province, 1988-1993

<table>
<thead>
<tr>
<th>City</th>
<th>No. of Joint Ventures And Foreign Funded Enterprises*</th>
<th>Contracted Foreign Direct Investment*&lt;sup&gt;b&lt;/sup&gt; (U.S. $ mil.)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1988&lt;sup&gt;a&lt;/sup&gt;</td>
<td>1991&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Nanjing</td>
<td>29</td>
<td>146&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Wuxi</td>
<td>22</td>
<td>109</td>
</tr>
<tr>
<td>Suzhou</td>
<td>100</td>
<td>313</td>
</tr>
<tr>
<td>Changzhou</td>
<td>26</td>
<td>92</td>
</tr>
<tr>
<td>Nantong</td>
<td>21</td>
<td>68&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Xuzhou</td>
<td>8</td>
<td>22</td>
</tr>
<tr>
<td>Lianyungang</td>
<td>9</td>
<td>24&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Huayin</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>Yancheng</td>
<td>6</td>
<td>33</td>
</tr>
<tr>
<td>Yangzhou</td>
<td>13</td>
<td>60</td>
</tr>
<tr>
<td>Zhenjiang</td>
<td>12</td>
<td>33</td>
</tr>
<tr>
<td>Jiangsu Province</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>TOTAL</td>
<td>247</td>
<td>916&lt;sup&gt;c&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

Sources:

<sup>a</sup> 1988 data from Richard Pomfret, *Equity Joint Ventures in Jiangsu Province* (Hong Kong: Longman Professional Intelligence Reports, 1989), p. 11.

<sup>b</sup> Sept. 1991 data from Interview, Jiangsu Commission on Foreign Economic Relations and Trade, 1992.


<sup>e</sup> *Jiangsu tongji nianjian*, 1994, pp. 225, 321-323.

<sup>f</sup> *Jiangsu tongji nianjian*, 1992, p. 270.

<sup>g</sup> JV's include both the equity and cooperative joint ventures

<sup>h</sup> According to the *Almanac of China's Foreign Economic Relations and Trade*, 1992/1993, pp. 316, 319, 321, and 324, all of Jiangsu Province ended 1991 with 1,138 projects, valued at US $ 737.02 million. Nanjing finished the year with 167 projects; Lianyungang with 20 FDI projects, and 7 more "other foreign investment" projects; and Nantong finished the year with 86 projects. These results differ from *Jiangsu tongji nianjian*, 1992, p. 270.

<sup>i</sup> The figure for Nanjing FDI probably includes foreign loans which I excluded from all my data.
### Table 5.

**Nantong Development Zone, 1986-1994**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total No of Firms (JVs)</td>
<td>NA</td>
<td>17 (4)</td>
<td>80 (1)</td>
<td>100 (21)</td>
<td>109 (25)&lt;sup&gt;2&lt;/sup&gt;</td>
<td>663 (70)</td>
<td>NA&lt;sup&gt;4&lt;/sup&gt; (32)</td>
</tr>
<tr>
<td>Industrial Output&lt;sup&gt;1&lt;/sup&gt; (1,000 RMB)</td>
<td>NA</td>
<td>2,270</td>
<td>30,150</td>
<td>175,080</td>
<td>209,610</td>
<td>556,000</td>
<td>3,005,000</td>
</tr>
<tr>
<td>Foreign Exchange Earnings ($US 1,000)</td>
<td>1,130</td>
<td>1,00</td>
<td>3,890</td>
<td>18,110</td>
<td>35,610</td>
<td>68,630</td>
<td>181,000</td>
</tr>
<tr>
<td>Financial Income (1,000 RMB)</td>
<td>92</td>
<td>704</td>
<td>2,020</td>
<td>6,027</td>
<td>6,027</td>
<td>7,763</td>
<td>NA</td>
</tr>
<tr>
<td>Exports&lt;sup&gt;1&lt;/sup&gt; (1,000 RMB)</td>
<td>5,491</td>
<td>15,000</td>
<td>69,640</td>
<td>123,160</td>
<td>251,080</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Tax on Profits (1,000 RMB)</td>
<td>532</td>
<td>3,454</td>
<td>7,999</td>
<td>20,220</td>
<td>24,520</td>
<td>73,000</td>
<td>340,000</td>
</tr>
</tbody>
</table>

**Sources:**

**Notes:**
1. Includes purchases from outside the zone sold through the zone’s export firm.
2. Of 25 foreign firms in 1991, 16 were joint ventures, 1 was a cooperative firm and 8 were independent foreign firms.
3. Output per capita for the zone in 1991 was 79,900 RMB/person. In the city it was 26,000 RMB/person.
4. Interestingly, the *Almanac of China’s Foreign Economic Relations and Trade 1993/96* did not report the total number of enterprises in the zone or the number of domestic enterprises. Probably, the number was quite high, comprising a very significant percent of the total number of firms.
Table 6.

Revenue and Expenditures of Prefecture-level Cities in Jiangsu Province (in mil. RMB)

<table>
<thead>
<tr>
<th></th>
<th>Nanjing</th>
<th>Wuxi</th>
<th>Xuzhou</th>
<th>Changzhou</th>
<th>Suzhou</th>
<th>Nantong</th>
<th>Lianyungang</th>
<th>Huaiyin</th>
<th>Yancheng</th>
<th>Yangzhou</th>
<th>Zhenjiang</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Finances</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>to be Sent Up</td>
<td>1989</td>
<td>1323.24</td>
<td>1635.29</td>
<td>423.90</td>
<td>893.01</td>
<td>1518.47</td>
<td>716.23</td>
<td>157.35</td>
<td>278.21</td>
<td>113.88</td>
<td>521.89</td>
</tr>
<tr>
<td></td>
<td>1991</td>
<td>1458.87</td>
<td>1799.81</td>
<td>469.14</td>
<td>972.17</td>
<td>1680.71</td>
<td>790.93</td>
<td>140.98</td>
<td>308.18</td>
<td>133.72</td>
<td>579.91</td>
</tr>
<tr>
<td></td>
<td>1993</td>
<td>1611.66</td>
<td>1888.15</td>
<td>493.53</td>
<td>1016.43</td>
<td>1768.70</td>
<td>831.26</td>
<td>84.18</td>
<td>344.04</td>
<td>184.75</td>
<td>611.29</td>
</tr>
<tr>
<td>Local Budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989 Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td>2000.68</td>
<td>2074.34</td>
<td>953.84</td>
<td>1266.80</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income - Expenses</td>
<td>946.20</td>
<td>591.17</td>
<td>745.02</td>
<td>476.47</td>
<td>753.52</td>
<td>659.38</td>
<td>347.53</td>
<td>774.30</td>
<td>654.95</td>
<td>762.01</td>
<td>330.78</td>
</tr>
<tr>
<td>1991 Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td>2090.86</td>
<td>1963.16</td>
<td>1034.67</td>
<td>1171.90</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income - Expenses</td>
<td>948.18</td>
<td>1289.95</td>
<td>53.50</td>
<td>558.49</td>
<td>848.89</td>
<td>769.48</td>
<td>420.56</td>
<td>971.31</td>
<td>782.59</td>
<td>1008.43</td>
<td>417.98</td>
</tr>
<tr>
<td>1993 Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td>2384.31</td>
<td>2268.48</td>
<td>1096.70</td>
<td>1365.16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income - Expenses</td>
<td>1174.44</td>
<td>734.66</td>
<td>955.99</td>
<td>592.28</td>
<td>930.28</td>
<td>808.58</td>
<td>427.13</td>
<td>1006.79</td>
<td>841.82</td>
<td>1019.81</td>
<td>422.69</td>
</tr>
</tbody>
</table>

Sources:

Note:
Data includes all counties and county-level cities within each municipality.
Table 7.
Revenue, Expenditures, and Funds Passed Up to Higher Level Government: Comparison Between Nantong and Zhangjiagang (in million RMB)

<table>
<thead>
<tr>
<th></th>
<th>Nantong 1</th>
<th>Nantong Suburbs</th>
<th>Zhangjiagang City 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Finances</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>to be Passed Up</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>716.23</td>
<td>328.50</td>
<td>170.07</td>
</tr>
<tr>
<td>1991</td>
<td>790.93</td>
<td>360.93</td>
<td>192.90</td>
</tr>
<tr>
<td>1993</td>
<td>831.26</td>
<td>375.42</td>
<td>205.43</td>
</tr>
<tr>
<td>Local Budget</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989 Income</td>
<td>1214.29</td>
<td>466.88</td>
<td>240.05</td>
</tr>
<tr>
<td>Expenses</td>
<td>659.38</td>
<td>175.52</td>
<td>74.35</td>
</tr>
<tr>
<td>Income - Expenses</td>
<td>554.91</td>
<td>291.36</td>
<td>165.70</td>
</tr>
<tr>
<td>1991 Income</td>
<td>1242.95</td>
<td>489.91</td>
<td>225.73</td>
</tr>
<tr>
<td>Expenses</td>
<td>769.48</td>
<td>210.65</td>
<td>81.66</td>
</tr>
<tr>
<td>Income - Expenses</td>
<td>473.47</td>
<td>279.26</td>
<td>144.07</td>
</tr>
<tr>
<td>1993 Income</td>
<td>1398.49</td>
<td>527.52</td>
<td>276.94</td>
</tr>
<tr>
<td>Expenses</td>
<td>808.58</td>
<td>215.26</td>
<td>93.88</td>
</tr>
<tr>
<td>Income - Expenses</td>
<td>589.91</td>
<td>312.26</td>
<td>183.06</td>
</tr>
</tbody>
</table>

Sources:

Notes:
1 Prefecture-level City (includes counties/county-level cities).
2 County-level City.
Table 8.

Zhangjiagang's GVIO as a Percent of Nantong's GVIO, 1978-1995

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>10.0</td>
</tr>
<tr>
<td>1985</td>
<td>27.9</td>
</tr>
<tr>
<td>1990</td>
<td>38.6</td>
</tr>
<tr>
<td>1992</td>
<td>62.8</td>
</tr>
<tr>
<td>1995</td>
<td>75.6</td>
</tr>
</tbody>
</table>

**Sources:**
Data presented in tables 1 and 2.

**Note:**
GVIO is gross value of industrial output.
Figure 1: Total Purchase Value of Export Procurement Commodities, Zhangjiagang and Nantong Municipality, 1984-1992