

CHAPTER 3. REGION'S POLITICAL POWER AND REGIONAL FOREIGN DIRECT INVESTMENT IN CHINA

FDI is defined as a form of international inter-firm cooperation that involves a significant equity stake in or effective management control of host country enterprises. However, in China, Chinese statistical authorities categorize FDI into five different groups, which are equity joint ventures (Sino-foreign joint ventures), wholly foreign-owned enterprises, cooperative operations, joint development and other foreign investment. FDI development phase in China is a good way to look into China's modernization and economic reform. Although Guangdong has consistently been the leading coastal province in recent years, the distribution of FDI has been an unequal development among regions in China, especially between coastal and inland provinces. However, this paper also focuses on the influence of region's political power in central government on regional FDI in China. Thus, this paper also states region's political power.

3.1 The Development of Foreign Direct Investment in China

China's trade policy was based on self-reliance, where the economy was mainly controlled and planned by the central government when the communist party took over of China in 1949. Almost 90% of China's population were rural and employed in the agriculture sector, which contributed 70% of the national income.¹⁰ There was no

¹⁰ The central government ruled all aspects associated with the development of the economy. It made decisions on macro and micro-economic activities and monopolized purchasing, marketing of commodities and the supply and allocation of materials.

law to act as a feasible institutional framework to govern the participation of foreign capital in the country's economy in the meantime. FDI started temperately in China after the opening policies of *the 1979 Law on Joint Ventures*.¹¹ The Law admitted foreign investment and defined equity joint ventures. Four special economic zones (SEZs) were quickly set up at Shenzhen, Zhuhai, Xiamen, and Shantou in the early 1980s.¹² Though, the legal environment for FDI was not well-defined, and little attention was directed to attracting foreign investors. Following Deng Xiaoping's Southern Tour, actual FDI surged by 150% to US\$19.20 billion in 1992. It surged another 150% in 1993 and maintained the growth thereafter.¹³ In 1992, China was receiving almost a quarter of total FDI inflows to developing countries, and today the share is 40%.¹⁴ Foreign investment has expanded to become by far the single most important source of external capital for China, surpassing the combination of bilateral development assistance and borrowing commercially and from international organizations. China finally entered the World Trade Organization (WTO) by working hard to reduce barriers to foreign investors in 2001. Foreign investors could now have confidence in investing in China due to the reforms within the nation and the entry to WTO. According to Table 4, the contracted and realized FDI inflows separately reached US\$204.66 billion and US\$73.52 billion in 2006. This growth phenomenon is expected to continue in the future.

As mentioned before, China has attached great importance to FDI. Also, FDI

¹¹ China's utilization of overseas investment has largely taken the forms of equity joint ventures and contractual cooperation, and wholly foreign-owned firms developing foreign-funded enterprises within China.

¹² In 1984, 14 more coastal cities and Hainan Island were opened to foreign investment. Furthermore, three zones were opened to FDI in early 1985: the Yangtze River delta, the Pearl River delta, and the Zhangzhou–Quanzhou–Xiamen region.

¹³ Huang (1995), "China's Utilization of Foreign Capital and the Related Policies." *Journal of Asian Economics*, 6(2), 217-232.

¹⁴ Ho (2004), "Determinants of Foreign Direct Investment in China: A Sectoral Analysis." *Association for Chinese Economics Studies, Australia (ACESA) Brisbane, QLD*, 19-20.

plays in an important role of modernizing and reforming China. For China, FDI not only raises tax revenues but also increases Chinese productivity and affects the market construction.¹⁵ In addition, increasing FDI pushes China into international economic system, promotes competitiveness across nations and improves the living level of people in China. According to Sun et al. (2002), FDI development in China can be viewed as going through three stages: the initial phase (1979-1985), the continuous development stage (1986-1991) and the high-growth period (1992 onward).¹⁶ This paper additionally separates the high-growth period into two parts: the high-speed growth period (1992-1997) and the China Western Development Period (1998-2006).

Table 4 : Chinese FDI Inflows (\$US Billion)

	Contracted	Realized
1979-1992	191.10	98.83
1992	69.44	19.20
1997	61.58	64.41
1998	63.20	58.56
1999	52.01	52.66
2000	71.13	59.36
2001	71.98	49.67
2002	84.75	55.01
2003	116.90	56.14
2004	156.59	64.07
2005	192.59	63.81
2006	204.66	73.52

Source: *China Statistical Yearbooks* (State Statistical Bureau, SSB).

Note: the figures include Foreign Loans, Foreign Direct Investment and Other Foreign Investment before 2000.

¹⁵ According to Huang (1995), the foreign direct investment has induced China's economic growth and introduced advanced operation and management experiences, especially advanced and applied technologies, as well as speeded up the renovation of old enterprises.

¹⁶ Also, Huang (1995), Broadman and Sun (1997) and Owen (2004) referred to the stages of China's FDI development.

3.1.1 The Initial Phase (1979-1985)

Equity joint ventures (Sino-foreign joint ventures), wholly foreign-owned enterprises and cooperative operations were firstly established in China's special economic zones (SEZs): three in Guangdong and one in Fujian,¹⁷ and then in some coastal cities on a trial basis. The Chinese authorities of local government in the SEZs had independent power to implement development plans, examine and endorse investment projects, issue licenses and land-use permits, and coordinate the work of banking, taxation, customs and frontier inspection.¹⁸ In 1984, 14 more coastal cities and Hainan Island were opened to foreign investment. Furthermore, three zones were opened to FDI in early 1985: the Yangtze River delta, the Pearl River delta, and Minnan delta.¹⁹ During this stage, foreign investments were concentrated in small-sized assembling and processing for exports. The local governments of these areas began a series of public works to improve the infrastructure such as transportation, communication, water, electricity supply, and so on, to implement preferential policies such as tax and profit concessions to reduce the income tax rate of foreign-funded enterprises from 30% to 15%, and to simplify the administrative links such as project application, examination and approval, registration, and so on. Thus, the number of newly-added foreign-funded enterprises rose increasingly.²⁰

¹⁷ Four special economic zones (SEZs) include Shenzhen, Zhuhai, Xiamen, and Shantou in the early 1980s.

¹⁸ Fu (2000) also stated 4 objectives about the establishment of the SEZs : 1. To attract not only foreign capital, but also advanced technology, both hardware and software. 2. To promote export-led growth, in other words, to accelerate exports, create local employment, and generate foreign exchange. 3. To serve as 'policy laboratories', where policies can be tested which, if successful, could then be adopted elsewhere in China. 4. To enhance the link of Hong Kong, Macao and Taiwan with mainland Chin.

¹⁹ Minnan delta, in the southern Fujian province, includes about Zhangzhou-Quanzhou-Xiamen region.

²⁰ According to Huang (1995), in 1984 the number of newly-added foreign-funded enterprises more than doubled that of 1983, increasing by 1,857. In 1985 the number again increased by 65% (up to 3,073). The contractual investment amounts in 1984 and 1985 increased by 53% and 1.2 times, respectively, compared with the respective previous years. And the actually utilized foreign investment in these two years increased by 98 and 32 %, respectively, compared with the previous year.

However, FDI spread out from the SEZs but the boom ended in late 1985 due to high inflation.

3.1.2 The Continuous Development Stage (1986-1991)

In response to a fall in FDI in 1985, the Chinese government promulgated the *Law of the People's Republic of China (PRC law) on Foreign-Founded Enterprises* in April 1986,²¹ which formally allowed legal rights to wholly foreign-owned enterprises in China. At the same year, the Chinese government further worked out the *Provisions of the State Council on the Encouragement of Foreign Investment* (the so-called 22 articles) in October,²² encouraging foreign investment, permitting more freedom of independent operations for foreign-invested enterprises and granting more tax-free incentives for foreign investment. The local governments were also given more authority in inspecting the applications of foreign investment. This marks the beginning of the second stage of FDI development. At this stage, the local governments successively formulated a series of measures in order to put these provisions into practice, and some of them adopted more preferential measures to motivate foreign firms to invest in projects involving exportable products and advanced technologies.

In 1988, the Chinese government promulgated laws and regulations to encourage Taiwanese entrepreneurs to invest in China. Thus, a new round of overseas direct investment again came out in 1988. Moreover, Hainan was incorporated as another SEZs and the Chinese government further amended the joint venture laws, which

²¹ Sun et al.(2002) referred to the first stage of opening policies starting from 1979 when the "law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment", the first of its kind, was enacted.

²² In 1987, the Chinese government instructed various related departments to examine the implementation situation of the "22 articles".

included a legal ban on expropriation, released restrictions regarding expatriation of profits and dividends, and allowed foreign nationals to be the chairman of the board of directors in foreign-invested enterprises.²³ Starting from a very low basement, but China experienced double- or triple-digit annual growth during this period.

In April, 1990, drawing upon the experiences of introducing foreign investment over the past 10 years and taking international practices as a reference, the Chinese government revised the *PRC LAW in the Chinese-Foreign Joint Ventures* formulated in 1979, by making qualifications on issues, such as, not carrying out nationalization of foreign-funded enterprises, time limits on contractual operations, appointments of chairpersons to the board, tax reductions and exemptions, and so on. At the same time, the Chinese government enacted again the *Provisions on encouraging the investment of overseas Chinese and Compatriots in Hong Kong, Macao, and Taiwan*. Furthermore, in 1991, the *Income Tax Law for Enterprises with Foreign Capital and Foreign Enterprises* was passed. FDI situation was improved and went on with double-digit growth in 1991.

3.1.3 The High-speed Growth Period (1992-1997)

Although China has adopted a series of measures to speed up economic reform and opening to the outside world, the distribution of FDI is an unequal development among regions in China, especially between the coastal and inland provinces. Thus, in this period, the Chinese government began to aim for equal FDI development in China. Since early 1992, Deng Xiaoping's Southern Tour, the Chinese government opened many cities along coastal lines and Yangtze River. In addition, the Chinese

²³ Sun, Tong and Yu (2002), "Determinants of Foreign Direct Investment across China," *Journal of International Money and Finance*, 21(1), 79-113.

authority expanded all provincial cities nationwide, sectors in which to utilize FDI, and foreign-funded enterprises in such sectors as retail commerce, foreign trade, finance and banking, insurance, civil aviation, and sea shipping on a trial basis. As a result, more FDI was incorporated extensively.²⁴ Most of all, foreign investors believed that the Chinese authority would persist in executing opening policies. Thus, FDI started to increase massively in this period.

Due to high-speed growth of the Chinese economy and bright prospects for markets and investment, some big foreign multinationals have also actively engaged in investment in China. Thus, the Chinese government promulgated “Sea-shore, River-shore, Border-shore” opening-up policy and enlarged the field of industries to broaden the scope of regional FDI at this stage.²⁵ According to the data of *China Statistical Yearbooks*, signed agreement FDI and actually utilized FDI in 1995 separately increased by 48.6% and 150.7% in 1992.²⁶ That is, annual average speed of increasing FDI reached 14.1% and 35%. FDI during this period accelerated rapidly. Therefore, China has become the first country of attracting FDI between developing countries and the second country of FDI inflows in the world in 1993. In addition, the scope of FDI expanded averagely so many celebrated enterprises subsequently entered in the Chinese market, which has huge market demand. Otherwise, many new ways of attracting FDI existed that wholly foreign-owned enterprise has become the most popular entry mode.²⁷ Most of all, the Chinese

²⁴ Huang (1995), “China’s Utilization of Foreign Capital and the Related Policies,” *Journal of Asian Economics*, 6(2), 217-232.

²⁵ “Sea-shore, River-shore, Border-shore” means that Chinese government opens Yangtzu River, Lanxin railway, Longhai railway and the frontier. Chinese government promulgated *Provisions on Guiding the Orientation of Foreign Investment* and *Catalogue for the Guidance of Foreign Investment Industries* to encourage FDI.

²⁶ Data statistics are from *China Statistical Yearbooks* of 1993 to 1996.

²⁷ “The implementation Regulations of the Law of the People's Republic of China on Sino-foreign Equity Joint Ventures” promulgated in 1995, the importance of wholly foreign-owned enterprise accelerated rapidly between equity joint ventures, cooperative operations, joint development and other foreign investment and subsequently became the main way to invest in China.

government began to lead capital into western regions.

3.1.4 The China Western Development Period (1998-2006)

Before this period, the Chinese government focused opening policy on the coastal areas and FDI also centered on eastern regions, which are abundant of preferential policies. As a result, the distribution of FDI is an unequal development among regions in China, especially between the coastal and inland provinces. In order to balance the difference of regional economic growth between the provinces in China, the Chinese government proclaimed to open up “Seven Economic Regions” in 1996.²⁸ The Chinese government expected “Seven Economic Regions” to develop their own features and advantages. Foreign investors could consider putting funds into western regions. Thus, the inequality of regional economic development may disappear and accelerate overall economic growth in China to avoid society problems, resulting from a large poverty gap.

However, even after the 1997 Asian financial crisis, China's annual growth rate has been over 7%. But other countries, which are the resource of foreign funds in China, were harmed seriously during the 1997 Asian financial crisis. Therefore, the amount of actually used FDI declined in China for the first time since the implementation of the open-door policy in 1979. In order to solve this predicament, the Chinese government promulgated *Catalogue for the Guidance of Foreign Investment Industries* and proclaimed *Notice of the General Administration of Customs on Clarifying Some Issues in the Execution of Tax Reduction and Exemption*

²⁸ Seven Economic Regions includes The Bohai Economic Region (Beijing, Tianjin, Shandong and Hebei), North Eastern Economic Region (Liaoning, Jilin and Heilongjiang), The Yangtze Delta Economic Region (Jiangsu, Zhejiang and Shanghai), Central Economic Region (Shanxi, Anhui, Jiangxi, Henan, Hubeia and Hunan), South Eastern Coast Economic Region (Guangdong, Fujian and Hainan), South Western Economic Region (Guangxi, Sichuan, Guizhou, Yunnan, Tibet and Chongqing) and North Western Economic Region (Inner Mongolia, Shaanxi, Gansu, Qinghai, Ningxia and sXinjiang).

Policies to be a complete set in 1997.²⁹ Thus, foreign investors proceeded to improve technology and enhanced the value of R&D. After that, the Chinese government attends to diversify the way of FDI and enlarge the choice of foreign enterprises.³⁰

Table 5 presents these four stages as follows.

²⁹ According to *Catalogue for the Guidance of Foreign Investment Industries* and *Notice of the General Administration of Customs on Clarifying Some Issues in the Execution of Tax Reduction and Exemption Policies*, the preferential policy in customs duties free and import tax of FDI are enacted, except some products in the *Notice of the General Administration of Customs on Clarifying Some Issues in the Execution of Tax Reduction and Exemption Policies*.

³⁰ As *Experimental Measures for Foreign-funded Commercial Enterprises* promulgated in 1999, Chinese government enlarged the site of FDI and changed the type of operation. In 2001, China entered the World Trade Organization (WTO) to proceed conditional opening. China and Hong Kong concluded and signed *Closer Economic Partnership Arrangement (CEPA)* to advance the relationships between China and Hong Kong in 2003. In 2002 and 2004, Chinese government revised *Catalogue for the Guidance of Foreign Investment Industries* to attract foreign investors to broaden their investing types and investment sites.

Table 5 : The Stage of China's FDI

Stage	Time	Important Policies
First	1978	The 11 th Congress of CCP set up the FDI opening policy.
	1979	The 1979 Law on Joint Ventures admitted foreign investment and defined equity joint ventures.
	1980	Four special economic zones (SEZs) were quickly set up at Shenzhen, Zhuhai, Xiamen, and Shantou.
	1983	<i>Regulations for the Implementation of the PRC LAW on Chinese-Foreign Equity Joint Ventures</i> and preferential policy of Taiwanese investors in SEZs offered tax exemption, forward mainland sale and preferential land usufruct.
	1984	In 1984, 14 more coastal cities and Hainan Island were opened to foreign investment.
Second	1985	Furthermore, three zones were opened to FDI in early 1985: the Yangtze River delta, the Pearl River delta, and the Zhangzhou–Quanzhou–Xiamen region.
	1986	The Chinese government promulgated the <i>PRC LAW on Foreign-Founded Enterprises and Provisions of the State Council on the Encouragement of Foreign Investment</i> to permit more tax-free incentives for foreign investment.
	1988	In 1988, Hainan was incorporated as another SEZs.
	1989	Tiananmen Square protests of 1989 happened. U.S.A and Japan announced to impose sanction against China in economical activities.
	1990	The Chinese government revised <i>PRC LAW on the Chinese-Foreign Joint Ventures</i> formulated in 1979 and enacted again the <i>Provisions on Encouraging the Investment of Overseas Chinese and Compatriots in Hong Kong, Macao, and Taiwan</i> .
Third	1992	After 1992, Deng Xiaoping's Southern Tour, Chinese government opened many cities along coastal lines and Yangtze River.
	1993	The Chinese government executed "Macro-control policy".
	1994	The reform of foreign exchange was actualized. Renminbi became a single floating rate.
	1995	The Chinese government promulgated <i>Provisions on Guiding the Orientation of Foreign Investment</i> .
	1996	The Chinese government revoked the preferential policy of customs duties free in the total amount of FDI and value-added tax.
	1997	The 1997 Asian financial crisis broke out. Renminbi revaluated to weaken the Chinese export competitiveness.

Table 5 (Continued)

Stage	Time	Important Policies
Fourth	1998	The Chinese government recovered the preferential policy in customs duties free and value-added tax of FDI.
	1999	<i>Experimental Measures for Foreign-funded Commercial Enterprises</i> was proclaimed to enlarge the scope of FDI.
	2000	The <i>PRC LAW on the Chinese-Foreign Joint Ventures</i> , the <i>PRC LAW on Foreign-Founded Enterprises</i> and the <i>PRC LAW on Foreign-Capital Enterprises</i> were submitted to be revised.
	2001	China entered the World Trade Organization (WTO) by working hard to reduce barriers to foreign investors in 2001.
	2002	<i>Catalogue for the Guidance of Foreign Investment Industries</i> was formally enacted and opened telecommunications, gas, and heat to foreign investors. Simultaneously, the Chinese government abolished <i>Provisions on Guiding the Orientation of Foreign Investment</i> which was promulgated by the State Council.
	2003	Mainland China and Hong Kong concluded and signed <i>Closer Economic Partnership Arrangement (CEPA)</i> to advance the relationships between China and Hong Kong.
	2004	The Chinese government led in progress technology and management experiences to attract foreign investment.
	2006	“Eleventh Five-Year Guideline” started. As China has transited from Soviet-style planned economy to market economy, the name for the 11 th five-year program was changed to “guideline” instead of “plan”.

Source: Huang and Hong (2006)

3.2 The Distribution of Foreign Direct Investment in China

Generally, the amount of FDI in China accelerates rapidly but unequally. Most investors choose the coastal provinces as their investing position. Thus, FDI concentrates on a few regions such as Guangdong.³⁸ According to Table 6, this paper clearly knows that the ratio of actually utilized FDI in the coastal regions is 84.55% which accesses above 80%. That is, the coastal regions attract most amount of FDI in China.³⁹ During 1998-2006, Shanghai, Jiangsu, Guangdong, Fujian and Shandong have attracted 71.52% of FDI in China. Foreign investors still regard the coastal region as a proper position to invest. As for inland areas, the ratio of actually utilized FDI is 15.45%. Although the Chinese government positively sets the equality of regional economic development into action during the fourth stage, the ratio of actually utilized FDI in the inland areas is still under 20%. “The China Western Development” policy does not attract FDI expectably. Most foreign investors still pour funds into the coastal regions.

According to Figure 3, the ratio of actually utilized FDI in the coastal regions shows the tendency of ascending first and decreasing later from 1997 to 2006. On the other hand, the ratio in the inland areas decreases first and accelerates later during this period. That is, the Chinese government first develops the coastal regions and second exploits the inland areas. In 1997, the Asian financial crisis broke out and the Chinese government started to promote even regional development on FDI. However, many countries which invested in the coastal regions in China were hurt seriously. Thus, the

³⁸ Guangdong absorbs FDI greatly. Its ratio of attracting FDI is 24.04% during 1998 to 2006 which is the first province between coastal regions.

³⁹ According to Chinese State Statistical Bureau, China can be separated into two regions. One is Coastal Region which includes Beijing, Tianjin, Hebei, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong, Guangxi, and Hainan. The Other is Inland Area which includes Shanxi, Inner Mongolia, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei, Hunan, Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang and Tibet.

Table 6 : Actual FDI of Provinces in China

(\$US Million)

Region	The Fourth Stage (1998- 2006)		
	Amount	Ratio (%)	Average Growth Rate (%)
Coastal	3865.13	84.55	50.04
Beijing	195.89	5.07	5.82
Tianjin	177.54	4.59	5.43
Hebei	94.87	2.45	3.21
Liaoning	236.29	6.11	7.05
Shanghai	375.88	9.72	5.48
Jiangsu	774.18	20.03	6.88
Zhejiang	310.44	8.03	9.46
Fujian	278.51	7.21	-3.42
Shandong	406.75	10.52	8.66
Guangdong	929.22	24.04	1.91
Guangxi	40.92	1.06	-10.92
Hainan	44.66	1.16	0.47
Inland	706.03	15.45	74.32
Shanxi	22.67	3.21	5.36
Inner Mongolia	35.60	5.04	10.53
Jilin	32.42	4.59	5.14
Heilongjiang	53.20	7.54	7.69
Anhui	40.23	5.70	8.90
Jiangxi	93.32	13.22	9.27
Henan	61.77	8.75	7.40
Hubei	116.49	16.50	6.70
Hunan	95.44	13.52	7.61
Chongqing	28.39	4.02	4.23
Sichuan	48.45	6.86	7.82
Guizhou	4.24	0.60	5.74
Yunnan	11.63	1.65	5.75
Shaanxi	34.28	4.85	7.51
Gansu	3.51	0.50	-3.20
Qinghai	6.55	2.14	10.95
Ningxia	15.11	0.93	11.11
Xinjiang	2.71	0.38	8.80

Source: *China Statistical Yearbooks* and *Chongqing Statistical Yearbooks*.

ratio in the coastal regions began decreasing. The ratio in the coastal regions recovered to ascend again but it still decreased after 1999. Conversely, the Chinese government positively put the equality of regional economic development into action so the ratio in the inland areas increased subsequently. Therefore, the amount of FDI showed the tendency of the coastal regions moving to the inland areas.

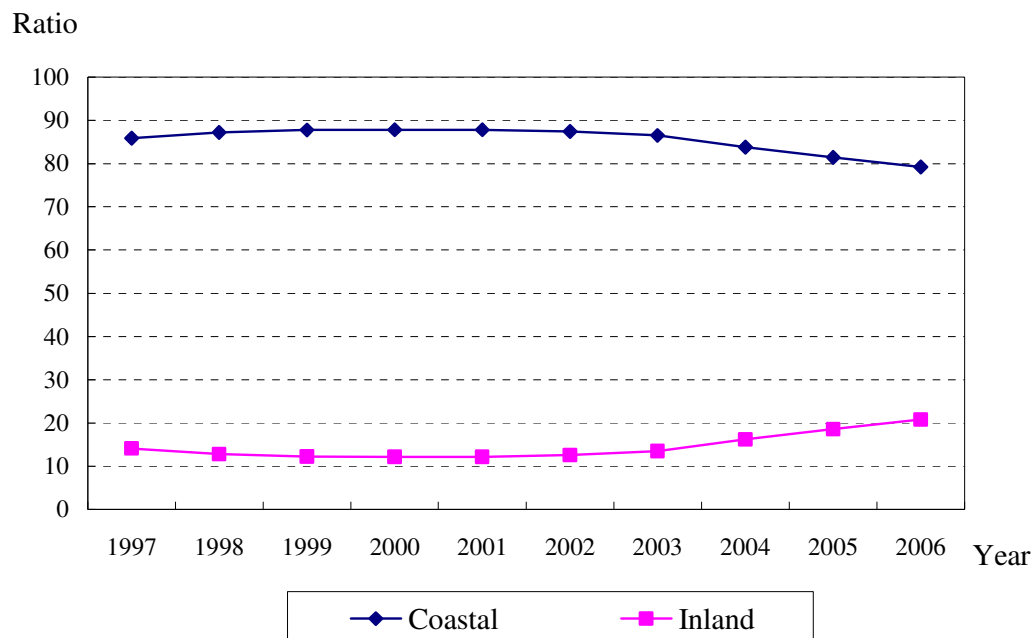


Figure 3 : Ratio of Regional FDI

Source: *China Statistical Yearbook* (State Statistical Bureau, SSB).

According to Liu et al. (1997), the coastal region such as Guangdong attracts FDI because Guangdong is near Hong Kong and Macao. Most overseas Chinese have historical connections with Guangdong. Moreover, the local government in Guangdong has ability to deal with international business and works hard to absorb the amount of FDI. Thus, Guangdong attracts FDI in China at most. In addition, Fujian has a deep relationship with Taiwan and Liaoning, Beijing, Tianjin and Shandong are all near Japan and Korea. Shanghai and Jiangsu both have superior geography positions and form an industrial agglomeration effect.

On the other hand, Cheng and Gastañaga (2001) referred to the regional disparity of FDI between the coastal and inland areas. They regarded the major factors might be regional disparity in per capita GDP and its growth rate, lack of infrastructure and skilled labor and bureaucracy. Both the growth rate and the level of per capita income in the coastal regions are much higher than those in the inland areas. In addition, one of the primary factors determining the choice of FDI location is access to the market. The inland areas in China are a land-locked economy. While land and other costs may increase in the coastal region, the backward infrastructure and transportation or communication may actually put the cost of a product in the inland areas higher than in coastal regions.⁴⁰ The average years of education in inland areas of China are much lower than in the coastal regions.⁴¹ Last, lack of transparency of the local bureaucracy and a legal framework to implement and enforce the contracts are often attributed as reasons for being dissuasive for a potential investor.⁴²

⁴⁰ According to Cheng and Gastañaga (2001), cost of product = cost of production + cost of transportation.

⁴¹ Cheng and Gastañaga (2001), "Factors Affecting Foreign Direct Investment--With Analysis of the Disparity between the Coastal and Western Regions of China." *Review of Pacific Basin Financial Markets and Policies*, 4(4), 479-493.

⁴² According to Cheng and Gastañaga (2001), the delay in granting a business license or in getting the right to use land usually last from 3 to 5 months in Shanghai, but can take up to one year in inland areas. The amount of illegal fees to be paid is also much higher in inland areas than in coastal regions.

3.3 The Measurement of Region's Political Power in China

Politics is about the authoritative allocation of resources.⁴³ In China, region's political power plays a role in the distribution of allocation resources from the central government. In addition to the whims of dictatorial leaders such as Stalin, Mao, and Tito, bureaucracies were especially prominent players in the politics of resource allocation. China under reform has sought to harness the various interests for developmental purposes and to address the inefficiencies inherent in its rigid command economy. According to Naughton (1987),⁴⁴ there has been a steady diffusion of authority over investments in the Chinese system, with the local governments having been major beneficiaries.

Higher investments not only generate economic growth, revenue and employment but also provide opportunities for local leaders to nourish patron-client ties and gain greater political prominence. Consequently, local officials, including provincial authorities, have eagerly competed for the central government projects, preferential policies, and higher investment quotas in their jurisdictions. Yet all provinces have not benefited equally from decentralizing trend. There have been significant variations in regional, provincial, and local patterns of investment and economic growth. Whereas there has been much scholarly attention to the economic aspects of the disparities in regional and provincial growth and investment, little systematic effort has been made to uncover the political patterns and dynamics of resource allocation. This paper compares four measurements of political power by Su and Yang (2000), Wang (2004), Bo (2004) and Hsu (2007) to determine which method can be suit for the purpose of this paper.

⁴³ Su and Yang (2000), "Political Institutions, Provincial Interests, and Resource Allocation in Reformist China."

⁴⁴ Naughton (1987), "The Decline of Central Control over Investment in Post-Mao China," *Policy Implementation in the People's Republic of China*.

According to Su and Yang (2000), region's political power of a province can be regarded as the political capital that enables a province to gain access to central decision making and resource allocation. There are two dimensions in their study. One is a formal dimension, and the other is an informal dimension. In an informal dimension, a province may gain more access to the center and its resources by the direct or indirect intervention of top leaders, the central government bureaucrats, and their personal secretaries who were born in the province or had worked in the region. According to Table 7, provinces such as Hunan, Hubei and Jiangsu which are birth places of Mao Zedong, Liu Shaoqi, Li Xiannian, Jiang Zemin and Hu Jintao were major beneficial regions. In addition, Sichuan which is hometown of Zhu De and Deng Xiaoping was also main beneficiary during the Third Front Program from the mid-1960s to the mid-1970s.⁴⁵

Table 7 : All Previous Top Leader of China

Time	Top Leader	Birth-Place
1954-1959	Mao Zedong	Hunan
1959-1965	Liu Shaoqi	Hunan
1965-1966	Liu Shaoqi	Hunan
1981	Soong Ching-ling	Shanghai
1983-1988	Li Xiannian	Hubei
1988-1993	Yang Shangkun	Chongqing
1993-1998	Jiang Zemin	Jiangsu
1995-2003	Jiang Zemin	Jiangsu
2003-2008	Hu Jintao	Jiangsu
2008-2013	Hu Jintao	Jiangsu

Source: news.xinhuanet.com

Note: Soong Ching-ling is the 1981's honor chairman of China.

⁴⁵ Naughton (1988), "The third front: defense industrialization in Chinese interior," *China Quarterly*, 115, 351-386.

In reality, birth-place connections, career patterns, and other personal connections assist to sustain and nourish central-local networks and patron-client relationships.³⁹ When studying the Chinese politics, we need to pay much attention to the birth-place and career patterns of the political elite.⁴⁰ Nevertheless, even though birth-place and career patterns of the top elite are relatively easy to identify, it is actually difficult to link such allocation of resources by the central government. As mentioned before, the other is a formal dimension. That is provincial representation in the Central Committee of the Chinese Communist Party (CCP) which is the main indicator of provincial political capital. Thus, Su and Yang amassed an index of such representation.⁴¹ The index of provincial representation on the Central Committee is compiled as follows: every full member of the Central Committee receives two points while alternative member is assigned one point to reflect the hierarchical rankings of various kinds of memberships.⁴² Thus, the Central Committee Index (CCI) for province is equal to two multiplies the number of full Central Committee members plus the number of alternative Central Committee members (see Equation 3-1).

$$CCI = 2 \times \text{full CC members} + \text{alternative CC members} \quad (3-1)$$

As for Bo (2004), like Su and Yang, he also adopted index to measure the political power by marking off the importance of different positions in the Central Committee. In order to make a possible comparison across provinces as well as among different institutional groups, the CCI can be produced according to the

³⁹ The leader of one locality boasted that the locality benefited greatly by training and supplying household staff for central leaders during the reform era.

⁴⁰ Membership in the political elite is based on a combination of party loyalty, training and on-the-job performance, and personal connections. Party loyalty is by far the most important criterion. It involves a blend of devotion to Marxist-Leninist principles, loyalty to the state, commitment to socialist internationalism, and strict adherence to party discipline.

⁴¹ Su and Yang (2000), "Political Institutions, Provincial Interests, and Resource Allocation in Reformist China," *Journal of Contemporary China*, 9(24), 215-230.

⁴² The relative weights for the two types of memberships could be 1.5 or 2 or 3, and the results of our analysis will not be materially affected.

following scheme.⁴³ An alternative member of the Central Committee (CCA) receives one point, a full member gets two (CCF), an alternative Politburo member (CCPA) has one more, a full Politburo member (CCPF) takes two more, a Standing Politburo member (SP) gets three more, and the General Secretary (SEC) has five more. In addition, members of the secretariat receive one more point each. Members of the Central Military Commission (CMC) receive one more point each and vice-chairmen of the CMC two more points each. Thus, the provincial CCI can be presented as follows.

$$\begin{aligned} CCI = & 5 \times \text{general SEC members} + 3 \times \text{SP members} \\ & + 2 \times \text{CCPF members or CCF members} \\ & + 1 \times \text{CCPA members or CCA members} \end{aligned} \quad (3-2)$$

Instead, Wang (2004) regarded the party congress as the allocation of political interest. The allocation is referred to the position of the Central Committee, the Politburo and the Standing Committee of the Politburo. Wang indicated the index of these three positions according to the extent of their importance. Thus, he used proportion to examine region's political power. Members of the Central Committee are for 1, members of the Politburo are for 9 and members of the Standing Committee of the Politburo are for 27.

However, Hsu (2007) had another point of view about the measurement of region's political power. According to Hsu, index is indeed simple and suit for the extent of the importance between those institutional groups, but it is short of an objective standard. In addition, proportion is based on an objective view. It is worth being used in a mechanical system but not in a logic way. Actually, proportion needs to be thought more carefully. Thus, Hsu set up a new measurement in consideration of

⁴³ Bo (2004), "The 16th Central Committee of the Chinese Communist Party: Formal Institutions and Factional Groups," *Journal of Contemporary China*, 13(39), 223-256.

conceptual and empirical problems. The determinant of region's political power exists in the meaning of voting in the Central Committee of the CCP. Moreover, full and alternative members in the Central Committee and the Politburo are different that full members have authority to affect the politics of resource allocation by the order of precedence in provinces but alternative members do not.⁴⁴ In addition, the Standing Committee of the Politburo is an important decision institution in the central government but it is not designed to convey provincial interests.⁴⁵ Thus, members in the Standing Committee of the Politburo are not discussed in Hsu, which is the same as Su and Yang.⁴⁶

This paper follows on Hsu and establishes a calculating mechanism to measure region's political power as presented in Table 8. According to Table 8, this paper concludes that region's political power index is set by the assumption of majority. For example, in the 16th Congress of the CCP, majority in the Central Committee needs 100 of votes and 13 of votes in the Politburo. Thus, the value of one full member in the Politburo is 7.69 to one full member in the Central Committee. In general, the influence of every vote in the Central Committee or the Politburo is 1 divided by Majority number of full members in the Central Committee or 1 divided by Majority number of full members in the Politburo. At this point of view, every vote, which is presented in equation 3-3, has the most power to affect the politics of resource allocation. In equation 3-3, p_i is Majority number of full members in the Politburo (excess half number of full members in the Politburo) and c_i is Majority number of full members in the Central Committee (excess half number of full members in the

⁴⁴ Hsu (2007), "The Horizontal and Vertical Competition in China's Central-Provincial Relations, 1993-2004: Issue Linkage between Elite Politics and Fixed Asset Investment." *Mainland China Studies*,50(2),1-33.

⁴⁵ Su and Yang (2000), "Political Institutions, Provincial Interests, and Resource Allocation in Reformist China," *Journal of Contemporary China*, 9(24), 215-230.

⁴⁶ Su and Yang (2000) chose to leave out membership on the Standing Committee of the Politburo.

Table 8 : Region's Political Power in the Central Committee and the Politburo

Catalog	the 15 th Congress of the CCP	the 16 th Congress of the CCP
Full members in the Central Committee	193	198
Full members in the Politburo	22	24
Majority number of full members in the Central Committee	97	100
Majority number of full members in the Politburo	12	13
One Full member in the Central Committee vs. One Full member in the Politburo	1 : 8.08	1 : 7.69

Source: Hsu (2007)

Central Committee).

$$\frac{1}{p_t} \times P_{i,t} + \frac{1}{c_t} \times C_{i,t} = \text{CCPB}_{i,t} \quad (3-3)$$

$$p_t = \frac{1}{2} P_t + 1 \quad \text{if } P_t \text{ is even}$$

$$p_t = \frac{1}{2} P_t + \frac{1}{2} \quad \text{if } P_t \text{ is odd}$$

$$P_t = \sum_{i=1}^n P_{i,t}$$

$$c_t = \frac{1}{2} C_t + 1 \quad \text{if } C_t \text{ is even}$$

$$c_t = \frac{1}{2} C_t + \frac{1}{2} \quad \text{if } C_t \text{ is odd}$$

$$C_t = \sum_{i=1}^n C_{i,t}$$

Therefore, this paper is based on the equation 3-3 to calculate region's political power in 30 provinces from 1997 to 2006.

According to Table 9, the coastal regions, which are Beijing, Shanghai and Guangdong, kept high region's political power from 1997 to 2005. Although Tianjin had low region's political power during 1997 to 2001, it ascended after 2002. On the

other hand, Shandong had higher region's political power from 1997 to 2002 but decreased rapidly from 2003. However, the inland areas mostly had low region's political power during 1997 to 2005 except for Xinjiang, which increased rapidly after 2003.

Evidently, the provincial leaders emerged as the most powerful group in the Chinese politics as a result of the 16th Congress of the CCP. The number of provincial units that enjoy the status of elite provinces is unprecedented in the history of the People's Republic of China.⁴⁷ According to Bo (2004), the four elite provincial units were Beijing, Shanghai, Shandong and Guangdong. On the other hand, the six more provincial units were Tianjin, Sichuan, Jiangsu, Zhejiang, Hubei and Xinjiang.⁴⁸

Tianjin became an elite provincial unit in 1987 and passed away in 1993. However, Tianjin recovered to be an elite provincial unit after 2002 because the party secretary of Tianjin restored to the Politburo, making Tianjin being an elite provincial status.⁴⁹ Similarly, Sichuan became an elite province in 1987.⁵⁰ In 2002, the party secretary of Sichuan made Sichuan's elite provincial status restore for the time being.⁵¹ The most interesting case of all, however, is Xinjiang. Xinjiang enjoyed a semi-elite provincial status in the 1970s when its First Party Secretary made it to the Politburo as an alternate member.⁵² Given Jiang Zemin's "The policy of Western

⁴⁷ Bo (2004), "The 16th Central Committee of the Chinese Communist Party: Formal Institutions and Factional Groups," *Journal of Contemporary China*, 13(39), 223-256.

⁴⁸ In addition to the four elite provincial units (Beijing, Shanghai, Shandong and Guangdong) previously, six more provincial units were upgraded to this status.

⁴⁹ The party secretary of Tianjin, Zhang Lichang, backed to the Politburo and restored Tianjin's elite provincial status.

⁵⁰ When Yang Rudai was elevated to the Politburo, Sichuan became an elite province. However, Sichuan lost that seat five years later when Yang retired and his successor was not able to make it to the Politburo.

⁵¹ Zhou Yongkang made Sichuan not only to the Politburo but also to the Secretariat., but soon was lost again due to the departure of Zhou.

⁵² First Party Secretary was Seypidin Azizi and his successor Wang Feng was a full member of the Central Committee but not a Politburo member. Now Party Secretary Wang Lequan's promotion is indeed the promotion of the region as well.

China Development”, the position of Xinjiang has become more prominent economically as well as strategically. Geographically, elite provincial units were more evenly distributed than before. They included two in the North (Beijing and Tianjin), four in the East (Shanghai, Shandong, Jiangsu and Zhejiang), two in the Central-South (Guangdong and Hubei), one in the Southwest (Sichuan), and one in the Northwest (Xinjiang).⁵³

The political situation in China has remained stable and favorable to the country's domestic and international socioeconomic advancement. The “Eleventh Five-Year Guideline” (2006-2010) forms the current basis for the economical and social development efforts. In continuity with the “Tenth Five Year Plan”, the “Eleventh Five-Year Guideline” aims to sustain the rapid and steady development of China's “socialist market economy” while in addition to achieve the “five balances”,⁵⁴ and make economic and social development more people-oriented, comprehensive, balanced and sustainable. As a result, more stable political situations exist, more FDI are attracted to absorb more funds in China.

⁵³ Bo (2004), “The 16th Central Committee of the Chinese Communist Party: Formal Institutions and Factional Groups,” *Journal of Contemporary China*, 13(39), 223-256.

⁵⁴ Five balances are equilibrium between rural and urban development, interior and coastal development, economic and social development, people and nature, and domestic and international development.

Table 9 : Provincial Political Power in Central Government

Region	Political Power								
	1997	1998	1999	2000	2001	2002	2003	2004	2005
Coastal									
Beijing	169	161	90.8	90.8	90.8	90.8	86.9	86.9	86.9
Tianjin	20	20	20	20	20	90.8	86.9	86.9	86.9
Hebei	20	20	20	10	10	20	20	20	20
Liaoning	10	20	20	20	10	10	20	20	10
Shanghai	94.5	90.8	90.8	90.8	90.8	80.8	86.9	86.9	86.9
Jiangsu	10	20	10	10	10	10	0	0	0
Zhejiang	20	20	20	20	20	20	10	10	10
Fujian	20	20	10	10	10	10	20	20	10
Shandong	94.5	90.8	90.8	90.8	90.8	80.8	10	10	10
Guangdong	84.5	90.8	90.8	90.8	90.8	90.8	86.9	86.9	86.9
Guangxi	20	20	20	20	20	20	20	10	0
Hainan	20	20	20	20	10	20	20	10	10
Inland									
Shanxi	20	20	20	20	20	20	10	10	0
Inner Mongolia	20	20	20	20	10	20	10	10	10
Jilin	20	20	20	20	20	20	20	20	10
Heilongjiang	20	20	20	10	10	10	20	20	10
Anhui	10	20	10	0	0	10	20	20	20
Jiangxi	20	20	20	20	10	10	20	20	20
Henan	84.5	20	20	20	20	20	10	10	10
Hubei	20	20	20	20	20	20	20	20	20
Hunan	20	20	10	10	10	10	10	10	10
Chongqing	10	20	20	20	20	20	20	20	20
Sichuan	20	20	10	10	10	10	20	20	20
Guizhou	10	10	10	10	0	0	20	20	20
Yunnan	20	10	10	10	10	10	20	20	20
Shaanxi	0	10	10	10	10	20	20	20	0
Gansu	0	10	10	10	0	0	20	20	20
Qinghai	20	20	10	10	10	0	20	10	10
Ningxia	20	10	10	10	10	10	20	20	20
Xinjiang	10	20	20	20	20	20	76.9	76.9	76.9

Source: Hsu (2007).