

Chapter 1: Introduction

"When i came here 14 years ago, there were only three actual streets – the rest was pretty much farmland" Business Development Director of Sanmina-SCI Steve Chen (陳振森), native to Taizhong, Taiwan recalls. Steve's experience with living, working, educating and thriving in Kunshan city, Jiangsu province is longer than most. Steve, and other Taiwanese businessmen and professionals (台商, Taishang) like him have come in waves to Kunshan city, a formerly agricultural county between the metropolii of Shanghai and Suzhou. Today, estimates put them at 20000 in Kunshan (including families), filling key positions and contributing hard-acquired skills earned through global markets and top universities alike. The contemporary growth of the Chinese economy, by virtue of the number of people involved in it, amounts to the greatest social change in the history of mankind. In analogy to the colonization of South America by Spain, Taishang play the role of Hernan Cortez, the Conquistador who cut his way through the jungle with a host of but a few hundred men and conquered the crumbling Aztec empire arguably several times the population of Spain by estimates of the early 1500s. Taishang are such Conquistadors, but of a benevolent kind – they "clear the jungle" and are the first to set up in new, more remote or untested cities and counties in China whereupon the more cautious investors from other first world countries follow suit.

Kunshan's development zone, the Kunshan Economic and Technical Development Zone (hereafter KETDZ) carries such a story. Set up by the city government in the mid-1980s without legal sanction from the central government, KETDZ had a slow start and unsuccessfully tried to attract domestic investment, but soon turned to Taiwanese and other outside sources of capital. As explained by Keng and Chen (2006) successful lobbying much due to good connections, Guanxi (關係), in Beijing assured formal sanction through designation as a national-level development zone in 1992.

Cheap land and proximity to Shanghai were among the factors convincing large firms such as Uni-President, Giant, Foxconn and their suppliers such as Shimano and WUS Printed Circuits to open plants in Kunshan. According to local statistics from 2007, Kunshan has built a miracle on the Jiangsu canal landscape since them, with 24 of the

fortune 500 companies locating there and a cumulative total of 1394 foreign-invested enterprises in the city (http://www.chinadaily.com.cn/en/doc/2003-07/31/content_250696.htm and <http://www.ketd.gov.cn>). Circumstantial evidence from everyday experience offers some clues: old buildings are abandoned and torn down to leave space for 30-story apartment complexes surrounded by parks, wide boulevards and beautified canals. One gets the impression Kunshan's ambition is to look like the Netherlands. The city government proudly displays vivid future plans for Kunshan on local TV, centered around development of roads, gardens, canals, cultural and educational facilities (such as a brave, new city library) and constantly improved housing. The basic attitude is displayed on a banner at the Yushan district administration office at the north end of People's road: "Fully realizing the well-off society – Building the new Jiangsu" (全面達小康 – 建設新江蘇). No longer occupied with building utopias and paradises on earth, today's local communist government seems fully content to foster a middle class that works hard and improves its situation bit by bit. This modest but sober vision is the very definition of Jiangsu's future in the words of the local government, and the very source of their legitimacy.

Yet this has been a toiling process for the local government. Huge influxes of foreign capital, migrant labor and changes in the global markets on which the Kunshan miracle is based requires competent and responsive decision-making and administration, especially flexibility and a willingness to learn from others and challenge established ways of thinking and ruling. Fast changes in the availability of capital and labor (and therefore their relative price) is indeed what mainstream literature in political-economic institutions predicts as major factors both influencing and being influenced by changes in institutions, see for example North (1981 and 1990). In many parts of China, the process of transition to a middle class society has stalled because difficult decisions on institutional reform (that is, reforms of formal rules, informal practices and enforcement of rules) have not been made. Short-term thinking and the lure of quick personal enrichment might indeed be a dominant management attitude in local governments across China, in the view of scholars like Pei Minxin (2006). What instead stands out in Kunshan's case is quick and effective service, genuine interest in the nature of running a business on the behalf of

local officials and an attempt to simplify and streamline administration as well as quickly deal with any complaints investors have. In addition, Kunshan appears to have built up bureaucratic capacity and professionalism over time in a way consistent with sustainable economic growth and the much sought-after “realization of the well-off society” of today’s banners.

Judging from examples of actions taken by the Kunshan government and other comparable local governments in Jiangsu, there is a growing understanding of a competitive institutional environment in the many export processing, high-tech, free-trade, industrial etc. zones that have popped up in the lower ChangJiang delta region. Competition is not only fierce between industries and firms but also between local governments on what terms, rules and service they can offer for operations in the zones they set up. In such an environment, not only low costs in the simple meaning of cheap labor, low-cost transportation and tax breaks matter but also the cost of insecurity and unpredictability of business transactions – transaction costs. Good institutions; responsive and relatively clean government, predictable and effective administration and an ability to adapt and maintain good relations to firms without being captive to the interests of individual firms – all of these become competitive advantages. In Kunshan, where the economy is increasingly complicated and labor cost is now too high to be an advantage, new means of thriving in the global economy must be found. Living environment, infrastructure, effective and responsive government are among these because they affect real costs of doing business and planning for a long-term presence in Kunshan. It is the conviction of this study that it is this competitive institutional environment and the course of actions sought by the local government under the constraints of that environment that build, adapt and condition the institutional framework of Kunshan and that it is the sudden large influx of foreign capital under this particular environment that is the key to understanding A successful path to development.

This study takes a back-door approach to what the competitive institutional environment and adaptive institutional reform has meant to Kunshan’s development. Through an analysis of institutional theory and first-hand data from Kunshan including descriptive statistics and semi-structured in-depth interviews with representatives of different

foreign-invested businesses, this paper points to some changes in local government behavior and procedure that helps to explain Kunshan's massive economic transformation.

Chapter outline

This thesis is organized into five chapters. First is this introduction, and the second section discusses the choice of method. The third chapter is a discussion of the theoretical background and the literature in the field and accompanying specifications of key terms such as "institution", "autonomy" and "embeddedness" – ending with a specification of an hypothesis. The fifth chapter is a presentation of the evidence from the field study in light of the theoretical discussion in section two. Finally, the sixth chapter sums up the results and offers concluding remarks.

Chapter 2: Method

The Field study enquires about the nature of the relationship between business and government in Kunshan, from the point of view of business. Enquiring about these issues is suited to qualitative methods by nature, since it involves personal experiences, perceptions and impressions rather than quantifiable facts. Still, there is room for use of descriptive statistics to back up arguments. As follows, the data gathering method is semi-structured in-depth interviews, in all but the cases where time and other constraints as well as follow-up interviews dictated another course. Results from such an investigation are limited in their scope as they can only provide us with good inputs regarding the casual relationship between the three main variables of changing relative prices, embedded autonomy and economic development in the case of Kunshan. Results are not, virtue to themselves, extendable to the general relationship between these variables in the entire population of 'states'. Burnham et. al (2004:53-55 and 157-162) demonstrate how valid support of such a hypothesis requires nothing less than a study of a randomized sample of states.