

but just a supervisor, who did not have authority to negotiate properly. Today, Kunshan is likely to not only target desired firms but also to know enough about them to apply more effective treatment from the start (Steve Chen 20080218, Keystone was run by a former colleague to Chen).

In the mid-1990's, Kunshan's lack of embeddedness meant it was afraid of signs of a civil society organizing itself (the TBA), and actively trying to discourage that (The author met a friend of Chen's that used to be a plainclothes officer tasked with spying on Taishang). Examples from Shenzhen and the strong bargaining position of Taishang meant that eventually the local government had to make an exception to the strict controls on civil society China is known for. The difference is striking with the Kunshan today that relies increasingly on business-government connectedness to conduct its economic development planning – one condition for collecting that information being the existence of the TBA and other efforts: the model was replicated for other foreign investors through specialized units in the KETDZ administration. The interviewees perceive that in all phases of their investment, from establishment to day-to-day affairs, Kunshan has been interested, responsive and provided effective service. To continue to meet economic trends and adapt the business environment and workforce to conditions that shift very fast, partnerships with firms is clearly a necessity, rather than reactively ordering them around as is the shadow from days of yore.

## **Chapter 5: Conclusion**

In this thesis I have tried to approach the issue of the changing institutions of government as a function of the shift to the market economy in China. I argue that the “open-door” policy brought about an opportunity for localities like Kunshan to attract foreign direct investment and that this investment results in a process of economic transformation and institutional innovations to accommodate that transformation. These innovations I have labeled as autonomy and embeddedness. Autonomy consists of both capacity and integrity on part of the bureaucracy, both of which have improved as a result of the learning process of economic transformation. My study shows how demands from investors and knowledge transfer from the investors to the bureaucracy, in combination

with an apparent willingness to reform the bureaucracy are the main explanations for growing autonomy. Embeddedness has improved due to Kunshan first allowing civil society organizing of (primarily Taiwanese) investors, and then building an institutionalized relationship with business in order to simplify doing business, making it more attractive to locate in Kunshan. The combination of autonomy and embeddedness explains how Kunshan stays in a very high position in Chinese business-environment rankings and how yearly utilized FDI has doubled since the late 1990's transitional period when the changes took place.

The institutional transformation of Kunshan did not happen overnight and must have taken considerable expenditures of political capital by the successive Kunshan majors to challenge the abundant vested interests of the old-style party state – the “Drinking, smoking and cooking” old men that feature prominently in the life chronicles of men like Steve Chen.

I set out to demonstrate the parallel phenomena of growing embedded autonomy and economic transformation. I can offer no general evidence that this is true, but merely offer one more case to strengthen that relationship. The circumstances to Kunshan's development; political choices, developments in the IT industry, production technology, individuals and coincidences unique to Kunshan also played a part – just to name a few factors. But, the link between a growing industrial society and a shift in mindset, operational capacity and methods of the local government are hard to deny, especially as the individuals encountering it daily repeatedly underscore its importance.

Rather than having a finished blueprint for what institutions were desirable to develop right at the outset, Kunshan perceived falling behind and that strongly motivated radical choices to give more leeway to the private sector than was probably desired. The extra leeway granted to the investors in the form of more secure property rights also ensured their participation and stake in developing the institutions of the “Kunshan Way” in a conflict-ridden but productive relationship.

It is important to point out some further implications of the study. First, a logical continuation of it would be to compare experiences of investors in KETDZ with those of other zones in the delta region or even all of China to learn more closely how institutional innovations such as embedded autonomy are employed as means of competition for FDI between localities, as it was only really touched upon here. Is this competition a fast-track path to a good business and development climate in China? Second, is there a risk that being increasingly exposed to globalization will lead to increased conflict between the local and national political leaders? Witness for example the case of the recently instituted labor law that steeply increases hiring costs for firms, leading them to reduce employment. Laws that are politically necessary or expedient but undermine the conditions of successful development – is it a premonition of future political conflicts in China? Can such conflicts be solved at reasonable costs in an authoritarian system? These are problems typical of political life in the type of “middle-class society” (小康社會) that is the aim of current policy if one is to trust the banner hanging from the Yushan district administration building at the top of renmin road in Kunshan, Jiangsu, China.

## **Appendix A– Field study**

The field study was carried out in the form of semi-structured interviews, individual follow-up interviews and to a limited degree participant observation (observations of business and government representatives involved in more casual dinner conversations). Rather than provide direct evidence, observations of social situations are informative as to the way trust and relations are built and sustained in the local business culture. The general impression is that informal social interaction such as Karaoke, drinking and eating with business partners, government representatives and co-workers are the primary rituals for establishing trust in a setting where impersonal legal rules are a relatively new concept.

### **Interviews**

| Representative | Position | Organization    | Time     | Location      | Record |
|----------------|----------|-----------------|----------|---------------|--------|
| Anders Thorén  |          | Karlsson Spools | 20080218 | Factory, East | Mp3    |