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Grounded Globalization: Foreign Capital and Local Bureaucrats in China's Economic Transformation

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Summary. — How does a globalized context influence domestic development policies and the allocation of government resources in an authoritarian country like China? This study explores the coalitional politics in China's transition from foreign direct investment (FDI) attraction to domestic technology upgrading, which created winners and losers in the local allocation of government resources. Drawing on comparative case studies, semi-structured interviews and newly compiled data at the city level, the study finds that the varied levels of government support for domestic upgrading are shaped by coalitions for or against the transition. The major obstacle for bureaucrats within a city government to garner resources for domestic technology does not directly depend on the overall level of FDI. Rather, it comes from the vested interest of international commerce bureaucrats. These bureaucrats are more likely to form a cohesive coalition when the export share of foreign firms is large. At the same time, such a coalition is more likely to gain political influence when industrial sales are concentrated in large firms. The direction and magnitude of foreign capital influence, therefore, is channeled and manifested through local bureaucratic coalitions. This study sheds light on the politics of implementing development policies in an era in which globalization has cultivated fragmented interests within the local bureaucracy.

Key words — Asia, China, foreign capital, development policy, technology policy, local bureaucrats

1. INTRODUCTION

How does an increasingly globalized context influence the implementation of development policies in an authoritarian country like China? On the one hand, the penetration of foreign direct investment (FDI) into the country changes the dynamics of domestic politics, as some local bureaucrats start to form coalitions with foreign capital. On the other hand, given that China is an unelected but decentralized autocracy, both the formation and strength of such coalitions have been enabled or constrained by its fragmented bureaucratic systems at the local level.

This article brings to the forefront the local manifestation of foreign influence on the government's allocation of support for industrial transformation. It contends that the interplay of China's globalized economic context and its local bureaucratic institutions is essential for explaining policy coalitions and outcomes. It shows that the direction and magnitude of foreign influence is exerted, filtered, and reflected through local bureaucracy. Foreign influence on government support is most significant when it sharpens bureaucratic struggles between winners and losers, and such influence is most powerful when it has political value to local elites.

More specifically, the article examines the local response to the rise of China's new paradigm promoting indigenous technology competitiveness in the mid-2000s, in contrast to the previous paradigm of FDI-attraction and export promotion. [1] The transformation was announced as a crucial step to overcome the potential middle-income trap, and just as other developing countries have attempted, China planned to utilize the earlier stage of FDI-attraction to achieve a smooth transition to the later stage of domestic upgrading. However, local implementation has varied and has been fraught with tension between beneficiaries of the previous and current paradigms. As the central state started providing beneficial policies (such as government funding and tax cuts) to domestic firms and discontinued similar policies for foreign firms, anxiety and opposition often followed, but the effort to garner local government resources for the new initiative encountered far more obstacles in some cities than others.

This article argues that the new initiatives are most likely to be impeded by a vested interest coalition comprised of city government bureaucrats in charge of international commerce. These bureaucrats are likely to form a cohesive coalition to combat and/or manipulate the new policy when the export share of foreign firms is high in a city. At the same time, such a coalition is likely to gain political influence over top city leaders when industrial sales of foreign firms are concentrated in large firms. Taken together, these two conditions contribute to cohesive and strong vested interests. Such circumstances make it more difficult for agencies advocating for domestic upgrading to push for new policies or to provide government support. Two sets of institutions governing local politics, the rule of fragmented bureaucratic competition and the cadre evaluation system, have enabled and channeled foreign capital's influence. These two institutions have created competitive pressure among peer departments and motivated bureaucrats to fight for resources and beneficial policies. The cadre evaluation system, moreover, grants greater bargaining power to bureaucratic agencies who have the ability to maximize economic indicators benefiting the careers of top city leaders.

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The study generates a theoretical framework based mainly on a research strategy conducting controlled comparisons among different cities on the East coast of China with similar economic conditions. It investigates the in-depth mechanisms of coalition formation and bureaucratic competition through personal interviews with local officials and businesses. The applicability of the theoretical lessons across local China is then discussed based on an analysis of quantitative data across more than 200 prefecture level cities.

The findings uncover the local mechanisms through which foreign firms exert uneven influence, which are often understudied by works focusing on the overall effects of globalization. Meanwhile, the global–local dynamics highlighted here also shed new light on the implementation of development policies, especially during the unsettled time when potential winners and losers tend to fight. As such, the study reveals the political tension between maintaining an open economy, on the one hand, and promoting an ambitious national industrial agenda, on the other hand, which was often assumed away in studies using the FDI-centered or global value chain perspective. In contrast to previous East Asian developmental states that tended to have limited exposure to FDI and relatively coherent bureaucracies, globalization has cultivated local interests within fractured bureaucracies (Amsden, 2001; Chen, 2008; Evans, 1995; Hsueh, 2011; Kohli, 2004).

2. THEORETICAL CONTRIBUTIONS

Traditionally, studies of other East Asian countries do not devote attention to the issue of local implementation, as these countries are relatively small in size. In contrast, China's national initiatives are implemented as mandates through a province–prefecture (city)–county–township–village hierarchy. There is, therefore, often wide regional variation when carrying out central policies (Oi, 1999; Ong, 2012; Rithmire, 2015; Shen & Tsai, 2016; Whiting, 2001). In particular, the revision, adaptation, and selective implementation of central policies by local actors have gained much attention in previous studies (O'Brien & Li, 1999; Tsai, 2006). As far as development policies are concerned, studies find that central policies provide important signals but also leave localities with a large amount of leeway for interpretation and implementation (Breznitz & Murphree, 2011; Heilmann, Shih, & Hofem, 2013; Segal, 2002; Thun, 2006).

What still needs to be better understood, however, are the sources of such variation. Existing explanations are inadequate. Studies of industrial, economic, and technology policies typically focus on explaining how such policies influence the performance of certain industries or sectors across several locales (Brandt & Thun, 2016; Breznitz & Murphree, 2011; Steinfeld, 2010; Thun, 2006). The issues of local governments' decision making and implementation, i.e., why they choose to embrace or resist certain policies, are surprisingly underinvestigated. Other works on political economy in China have traced local variation to the collective or private ownership legacies of the Maoist era (Oi, 1999; Whiting, 2001). Yet, as collective enterprises have rapidly declined (if not disappeared), the collective-private relations in rural areas cannot directly explain such variation among the cities we examine today. Even for a pair of cities that both have collective legacies (or both have private-oriented legacies), there are significant differences in performance between the two. Instead, what matters here are the foreign–domestic dynamics in urban areas. The key question is why government officials in cities of similar levels of economic development and similarly structured bureaucracy respond differently.

This article seeks to address this lacuna by drawing attention to how the intertwined roles of foreign capital and local bureaucracy account for local policy variations. These two features—the penetration of FDI and complicated bureaucracy—also set China apart from other East Asian NICs in their high growth period. I argue that the composition of foreign capital affects the formation and strengths of local coalitions. At the same time, the way in which it exerts its influence is shaped and channeled by bureaucratic politics.

(a) *Foreign capital and domestic policies*

The penetration of FDI is an important difference between China and its East Asian neighbors, as coordinating foreign-domestic firm relations has become a key challenge for development policies (Hsueh, 2011; Ye, 2014; Yeung, 2009). Among the spate of works that has examined how economic openness has influenced domestic coalitions and policies, a growing body of literature has emphasized inward FDI (Gourevitch, 1978; Hiscox, 2002; Rogowski, 1989). Some have examined the general economic influence of FDI on domestic growth and development. Others have looked at the political influence of foreign investors in facilitating liberal reforms and practices, curbing (or increasing) corruption, or challenging central state authority (Frieden, 1991; Gallagher, 2005; Huang, 2003; Long, Yang, & Zhang, 2015; Malesky, Gueorguiev, & Jensen, 2014; Pearson, 1991; Pinto, 2013; Schneider, 2013; Sheng, 2010; Wang, 2014; Zhu, 2017; Zweig, 2002). Regardless of their explanatory objectives, however, many of these studies make their argument based on observations of an overall structural variable, often the value of FDI as a percentage of GDP in a locale.[2] When it comes to explaining the variation in local responses to the rise of the new paradigm, however, I find that FDI as a general structural factor cannot account for local differences. In fact, I will show that cities with similar levels of FDI dependence (measured by the FDI/GDP ratio) often end up with contrasting degrees of support for new policies.

Studies of global value chains have examined how China, as well as other developing countries, participated in global production by first engaging in labor-intensive, low-value-added activities and then gradually upgraded to higher value-added activities (Gereffi, Humphrey, & Sturgeon, 2005; Herrigel, Wittke, & Voskamp, 2013; Zhu & He, 2016). Ideally, the entrance of FDI can produce technology spillover to local producers and aid them in gradual upgrading. Realities are far more complicated than this smooth picture depicts, however. The roles of foreign firms are highly mixed in their "crowd in" or "crowd out" effects across regions and industries (Amighini & Sanfilippo, 2014; Colen, Persyn, & Guariso, 2016; Demir, 2016; Gui-Diby & Renard, 2015). Even in technologically simple industries, studies show that Chinese firms have continued to encounter difficulties (Dallas, 2014). The most intriguing question, then, is to go beyond merely assessing positive or negative effects of global production and to explore the factors that contribute to such mixed outcomes.

The inadequacy of the FDI literature in general and global value chains literature in particular shows that China is a clear case in which we need to unravel more detailed mechanisms on the ground, especially if we need to understand local governments' provision of support for domestic upgrading. How exactly do foreign firms make local governments more or less willing to support domestic upgrading? Which aspect of foreign capital is exerting influence and through which channels?

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