Beyond the Sunan model: trajectory and underlying factors of development in Kunshan, China

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Received 5 March 2002; in revised form 22 July 2002

Abstract. Since the launch of economic reforms in the late 1970s, some cities and regions in China have been growing much faster than others, stimulating scholarly research on the forces underlying uneven development. This paper, through a case study of the emergence of Kunshan in southern Jiangsu (Sunan), shows that the orthodox Sunan model centered on the development of township and village enterprises (TVEs) has become inadequate to account for the recent development and restructuring in Sunan. I argue that spatial development in China is a complicated process incorporating the role of the state, local development conditions, and foreign investment. Moreover, there are strong geographical foundations for the functioning of local states. The arguments are particularly relevant to the transitional nature of provincial China, where the state still plays a significant role in development while local and global forces have emerged as equally important forces.

Introduction
Since the launch of economic reforms in the late 1970s, China has experienced dramatic economic growth and spatial restructuring. Coastal provinces, especially Jiangsu, Shandong, Zhejiang, Fujian, and Guangdong have recorded unprecedented growth, while the relative status of some interior provinces and traditional industrial bases has declined. Development is also uneven within China’s provinces, as some cities and regions are growing much faster than others. Dramatic changes have prompted scholars to examine emerging patterns and underlying factors of spatial development in China (for example, Cannon, 2000; Fan, 1995; Li and Tang, 2000; Lin, 1997; Marton, 2000; Wei, 2000a).

Previous studies on uneven development in China tended to focus on macro-geographical scales of regions and provinces (Wei, 1999). Recent work has begun to examine regional inequality in provincial China, particularly in Jiangsu and Guangdong provinces (Fan, 1995; Gu et al, 2001; Wei, 2000a; Wei and Fan, 2000). Wei and Fan (2000), through a case study of Jiangsu, argue that a multitude of agents have jointly produced rapid growth in Sunan (southern Jiangsu), the core of the province. However, detailed analyses of agents or factors of regional growth require more precise case studies of selected cities or counties. Indeed, questions of what causes uneven development and why localities display different trajectories of development have been important subjects of academic inquiry, and have attracted renewed scholarly interest (for example, Ettlinger, 1999; Hart, 1998; Pickles and Smith, 1998).

In this paper I attempt to advance the study of uneven development in China through a case study of Kunshan, a county-level municipality (xian ji shi) in Sunan, to provide detailed analyses of uneven regional development. Through this case study, I attempt to analyze trajectories and underlying factors of development in provincial China. I will first describe the development record of Kunshan, focusing on dramatic economic growth in the reform period. Second, I argue that the development of Kunshan cannot be explained by the orthodox Sunan model which emphasizes township and village enterprises (TVEs). I hold that regional or local
development in China is a complicated process incorporating the role of the state, local development conditions, and global forces. Last, while acknowledging the role of local states in development, I highlight that the functioning of local states has a strong geographical foundation.

**Research background: trajectories and underlying factors of development**

The cause of uneven spatial development has generated heated debate. The development-from-above (or top-down) paradigm argues for state-directed development that stresses the growth potential and diffusion effects of growth poles (Friedmann, 1966; Hansen, 1981), which has been criticized for weak trickle-down effects and for the persistence of poverty and inequality in many developing countries. Some scholars have promoted the development-from-below approach by emphasizing small-scale, bottom-up, and agropolitan development that is mostly based on rural resources and community organizations (for example, Friedmann and Douglass, 1978; Stohr, 1981). The bottom-up development conceptualization, however, left the processes of endogenous and sustainable development a black box (Ettlinger, 1999).

Furthermore, there is intense debate over the role of external/global forces in development. The dependency and world-system perspectives hold that the imperative of global capitalism creates unequal transfer of values and intensifies uneven development (Friedmann and Weaver, 1979). It was suggested that some degree of spatial closure is needed to avoid the outflow of resources from the periphery to the core. Moreover, the recent globalization literature tends to maintain that the global is playing a dominant role in the world economy, and local actors are subordinated to the global force, leaving little role for nation-states to play (the ‘hollowing-out’ thesis) (for a review and a critique, see Yeung, 1998). Meanwhile, the neoliberal theory of development advocates market-led, export-oriented strategies, and argues that the development of Asian newly industrializing countries (NICs) validates this model of development (World Bank, 1993).

There is also sharp disagreement about drastically different processes and institutional frameworks of reform and transition in the former socialist countries. Eastern European countries, based on both the neoliberal views that free markets and central planning are mutually exclusive and that radical reforms are necessary for the transition (Sachs, 1993), have emphasized ‘shock therapy’, with privatization as the defining strategy for transition from socialism to capitalism. However, some scholars have adopted evolutionary and institutional approaches in addressing development and transition paths in those countries (for example, Chang and Nolan, 1995; Nee and Stark, 1989). The notion of path dependence argues that past legacies block local endogenous ‘shock therapy’ and can predict trajectories of future development.

These theories are designed as competing and mutually exclusive paradigms, and promote contrasting paths of development. Development, however, is a complicated process influenced by varied local and global forces, and forces from both above and below (Brown, 1999; Lin, 1997; Wei and Fan, 2000). Scholars have argued that the development of Asian NICs is based on historical and geographic conditions rather than on export promotion or a state-centered approach (for example, Brohman, 1996). Hart (1998) has criticized the bluntness of the industrial restructuring literature in its capacity to address the question of how to get to grips with the multiple, nonlinear, and divergent trajectories of development in developing countries. Empirical studies are weak, and many conceptualizations are untested and lack strong empirical foundations.

With regard to rapid regional growth in China, some attribute it to the success of reform policies initiated by central government, whereas others have emphasized the
role of local states (for example, Oi, 1992; Walder, 1995). Particularly related to this research is the Sunan model of development (Ma and Fan, 1994), which attributes the rapid economic growth of Sunan to the local state-led development of TVEs, and is often viewed as development/urbanization from below. This conceptualization has greatly improved the understanding of local development in China in the 1980s, but more work is needed to unfold recent transformations in Sunan. Empirical work analyzing the process of development in different localities of China remains limited, and the velocity of change requires reexamination.

In this paper I investigate the trajectory and underlying factors of development in Kunshan to improve our understanding of local/regional development in China. I will analyze factors underlying the development of Kunshan, highlighting geographical foundations for the functioning of local states. This will first be done by demonstrating the emergence of Kunshan during the reform period. With the changing global and domestic contexts, Kunshan led Sunan in taking a development path utilizing both domestic and foreign resources and moving away from the development of TVEs. Consequently, the orthodox notion of the Sunan model emphasizing TVEs has become inadequate to account for the recent development and restructuring in Sunan.

Second, I will examine factors underlying the development of Kunshan, and will illustrate that a synthesis of three major agents of spatial change—the state, the local agent, and the foreign investor—is necessary for understanding the dynamics of regional development and changes in provincial China. This conceptualization, built upon earlier publications (for example, Lin, 1997; Wei, 2000a; Wei and Fan, 2000), is particularly relevant to China, a transitional economy where the state still plays a significant role in development. As a result of China's triple transition (decentralization, marketization, and globalization) (Wei, 2001), both local and global forces have emerged as critical and substantial. Although the central state still implements regionally varied macropolicies, decentralization has empowered local states that actively initiate development policies and directly participate in the development process. I will analyze in detail the efforts and policies of the Kunshan government in reforming and globalizing the municipality. Moreover, foreign investment has become an emerging force driving uneven development in China—especially in its coastal areas. As a result, localities produce varied growth rates and exhibit changing trajectories of development. The process of development is neither revolutionary nor path dependent, as debated in the literature on transition of former socialist economies. Although they are not emphasised in this paper, I will demonstrate that past legacies play a role in the development process but do not prohibit strategic choices by local leaders in promoting alternative development paths.

Finally, although local states are playing important roles in local development, I stress that the initiation and successful implementation of local development strategies rely heavily on spatially varied development conditions, building upon the geographer’s position that geography matters (for example, Wolch and Dear, 1989) and, moreover, that geography matters significantly (Ma and Xiang, 1998). China is marked by drastic geographical differentials in development conditions, and the success of local development strategies requires proper global, national, and local contexts. Local states have to analyze those varied forces that are interacting with each other and operating at varied geographical scales. Local development conditions, as will be analyzed in this paper, are crucial to the successful implementation of local development initiatives. In other words, the role of local states would be handicapped without a strong geographical foundation for local state initiatives. I will demonstrate these notions through the case study of Kunshan.
The process and record of development

Kunshan is located in Sunan (including municipalities of Suzhou, Wuxi, and Changzhou), part of the Yangtze Delta that is one of the most rapidly growing city-regions of China (figure 1). Kunshan’s economic performance under Mao, however, was poor, and per capita output grew slowly. From 1950 to 1978 its average annual growth rate of per capita gross value of industrial and agricultural output (GVIAO) was 3.0%.

Table 1. Major indicators in Kunshan and Jiangsu Province (source: JSB, 1994–97).

<table>
<thead>
<tr>
<th></th>
<th>Kunshan</th>
<th>Jiangsu</th>
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<tbody>
<tr>
<td>Per capita GVIAO (1990 constant price)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1950 (yuan)</td>
<td>615</td>
<td>334</td>
</tr>
<tr>
<td>1978 (yuan)</td>
<td>1 340</td>
<td>1 291</td>
</tr>
<tr>
<td>1995 (yuan)</td>
<td>31 280</td>
<td>11 129</td>
</tr>
<tr>
<td>1950 – 78 average annual growth (%)</td>
<td>3.0</td>
<td>4.9</td>
</tr>
<tr>
<td>1978 – 95 average annual growth (%)</td>
<td>20.4</td>
<td>13.5</td>
</tr>
<tr>
<td>1995 Population</td>
<td>580 000</td>
<td>70 660 000</td>
</tr>
<tr>
<td>1995 per capita</td>
<td></td>
<td></td>
</tr>
<tr>
<td>fixed asset investment (yuan)</td>
<td>7 748</td>
<td>2 378</td>
</tr>
<tr>
<td>foreign direct investment (US$)</td>
<td>871</td>
<td>75</td>
</tr>
<tr>
<td>revenue</td>
<td>881</td>
<td>495</td>
</tr>
</tbody>
</table>

*GVIAO: gross value of industrial and agricultural output.*
was only 3%—even lower than the average growth rate of Jiangsu (4.9%) (table 1). As a county it grew considerably more slowly than cities favored by Mao's industrialization policy. In certain periods such as in the late 1950s and early 1970s, Mao encouraged decentralization and rural development that laid the foundation for the development of TVEs. The effects of such policies still could not offset the city-centered, heavy-industry-oriented Soviet model of development. Consequently, counties—including Kunshan—fell behind cities in economic development, and rural economies stagnated.

When Mao encouraged rural industrialization in the early 1970s, Kunshan's neighboring counties began to stress the development of TVEs, which soon outgrew the agricultural sector. The leadership of Kunshan, however, made little effort to develop TVEs. Kunshan lagged behind other counties in Suzhou Prefecture in the development of TVEs, and Kunshan's economy was dominated by agriculture. Kunshan's lower-than-average growth rate resulted in the decline of its status in the regional economies of Jiangsu, as evidenced by the decrease of its location quotient from 185 (higher than the provincial average) in 1950, to 97 in 1977 (slightly lower than the average) (figure 2). In 1977 Kunshan's agricultural sector produced 61.6% of GVIAO—much higher than the average level in Suzhou Prefecture (33.6%) (JSB, 1994b). In fact, it was the highest among the six counties in Suzhou (table 2, see over). Per capita GVIAO in Kunshan was 1095 yuan; although it was still higher than in poorer Subei, it was lower than in most counties in Sunan. Per capita income of rural peasants in Kunshan was only slightly higher than that in 1956 (96 yuan) at 131 yuan, and had an annual growth rate of merely 1.5% (KSB, 1993).

Kunshan's status in Jiangsu did not improve during the early reform period from the late 1970s to the early 1980s (figure 2). Rural reforms mainly improved agricultural production in Subei and rural industrialization in Sunan. In Sunan, TVEs began to enter a stage of rapid growth, built upon the development of TVEs in the early and mid-1970s, and this gradually became known to the nation as the Sunan model. Although the output of TVEs rapidly increased, Kunshan's rural industrial output was 331 million

\[ \begin{align*}
\text{Location quotient} & \\
0 & 100 & 200 & 300 & 400
\end{align*} \]

**Figure 2.** The change in location quotients based on per capita gross value of industrial and agricultural output, 1950–95 (average = 100).

\[ ^{(1)} \text{The location quotient (LQ) is calculated as the per capita gross value of industrial and agricultural output (GVIAO) in Kunshan divided by the average in Jiangsu. In this paper an LQ of over 100 indicates that a region's per capita output (or income) is larger than average.} \]
Table 2. A comparison of Kunshan with other counties in Suzhou Municipality (Prefecture) (source: JSB 1994b; 1998; SSB, 2000).

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Kunshan</th>
<th>Changshu</th>
<th>Taichang</th>
<th>Wujiang</th>
<th>Wuxian</th>
<th>Zhanjiang</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>amount</td>
<td>rank</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture output as % of GVIAO&lt;sup&gt;a&lt;/sup&gt; in 1977</td>
<td>61.6 1</td>
<td>44.8 2</td>
<td>56.5 3</td>
<td>54.8 4</td>
<td>52.4 5</td>
<td>55.7 6</td>
</tr>
<tr>
<td>Rural industrial output in 1983 (million yuan)</td>
<td>331 1</td>
<td>1030 1</td>
<td>508 2</td>
<td>604 3</td>
<td>724 4</td>
<td>883 5</td>
</tr>
<tr>
<td>FDI&lt;sup&gt;b&lt;/sup&gt; in 1997 (US$ million)</td>
<td>529 1</td>
<td>181 1</td>
<td>180 2</td>
<td>150 3</td>
<td>173 4</td>
<td>454 5</td>
</tr>
<tr>
<td>Exports in 1997 (US$ million)</td>
<td>1076 1</td>
<td>645 1</td>
<td>400 2</td>
<td>343 3</td>
<td>461 4</td>
<td>800 5</td>
</tr>
<tr>
<td>FIE&lt;sup&gt;c&lt;/sup&gt; employment in 1999 (thousand)</td>
<td>107.1 1</td>
<td>61.7 1</td>
<td>36.1 2</td>
<td>33.8 3</td>
<td>15.9 4</td>
<td>62.6 5</td>
</tr>
</tbody>
</table>

<sup>a</sup> GVIAO: gross value of industrial and agricultural output.

<sup>b</sup> FDI: foreign direct investment.

<sup>c</sup> FIE: foreign invested enterprise.

Figure 3. Urban land use in Kunshan, 1989 (source: Jiangsu Provincial Institute, 1992).
yuan in 1983, ranked last among the six counties in Suzhou (table 2). It was called ‘the little sixth’, and fell behind other counties in Sunan. Kunshan’s location quotient was still lower than the provincial average and among the lowest in the counties in Sunan at only 98. Yushan Town, the county seat, had only 59,000 residents and 4.25 km² of land, with poor services and infrastructure. Kunshan came under pressure from the prefectural government to improve its economic status within Sunan.

In 1984, with the shift of emphasis of the reforms to urban reform and open-door policies, the new leadership initiated economic and regional planning that set ambitious targets. The so-called ‘Three Ten’ objectives for the county seat (mainly Yushan Town) in 2000 included: (1) an urban built-up area of 10 km²; (2) 100,000 urban residents; and (3) GVIAO of 1 billion yuan (Office of the People’s Government, 1989). A major strategy to reach these objectives was the decision to establish “Kunshan Economic and Technological Development District” (KETDD, which will be discussed later in more detail) in the eastern part of Yushan Town (east of Bolu Road, see figures 3 and 4, for the location).

As evidenced by the rapid rise of location quotients and its share of GDP in Suzhou’s counties, the year 1984 marked the beginning of a period of phenomenal growth in Kunshan (figures 2 and 5, over). In 1985 Kunshan was among the first group of counties in Jiangsu and in China that were opened up for foreign investment and trade. In 1989 it was designated as a county-level city (municipality) because of its

Figure 4. Kunshan land-use plan, 1990–2010 (source: Jiangsu Provincial Institute, 1992).
significant achievement in urban growth. The city district had an urban population of 99,000, a built-up area of 10 km², and an industrial output of 1.8 billion yuan (Jiangsu Provincial Institute, 1992). It expanded rapidly towards the east, with a substantial amount of land used for industry. The aforementioned ‘Three Ten’ objectives were all reached in 1990, ten years ahead of the original plan.

In all respects, Kunshan’s growth since the mid-1980s has been spectacular, and it has become one of the richest counties or county-level cities in China. During the period 1978–95, the average annual growth rate of per capita GVAIO in Kunshan was 20.4%. It was among the fastest growing counties in both Jiangsu and China. As evidenced by figures 2 and 5, the status of Kunshan in the economies of Jiangsu and Suzhou has risen dramatically, especially during the 1990s. In 1991 Kunshan was ranked 24th among the 100 economically strongest counties in China (bai qiang xian). In 1995 Kunshan was ranked 9th in comprehensive economic strength among all Chinese counties (Zhang, 1996). In 1996 its per capita GDP was 19,656 yuan (about US$2400), ranking it 4th among Jiangsu’s counties. Rapid growth has been accompanied by rural development, as the per capita income of peasants reached 4101 yuan in 1996. As shown in figure 5, in comparison with other counties in Suzhou, Kunshan’s status in attracting foreign direct investment (FDI) has risen dramatically during the reform period. In 1998 Kunshan was ranked the first among counties in Jiangsu for attracting FDI (US$500 million). Since The People’s Daily (1988) praised its achievement, Kunshan’s success in economic growth and opening up has attracted the attention of the media and government officials in China.

This record of growth, however, can neither be simply attributed to the development of TVEs (as per the Sunan model) nor to export-oriented development. Kunshan’s development is very much a ‘mixed model’ incorporating elements of state intervention, utilization of local resources, and outward orientation. In other words, global, national, and local forces have all played important roles in the development of Kunshan. Moreover, the initiatives of local states and their success have relied heavily on local and global conditions.

The role of the state in development
Central and local governments have all played important roles in the development of Kunshan. China’s central government and reform policies have provided favorable macrocontexts for the development of certain coastal areas, including Kunshan.
First, Kunshan, like many other coastal cities and counties, is able to retain much of its growing revenue and has considerable flexibility for resource allocation. As early as 1977, Jiangsu implemented a fiscal system of fixed-rate contracts with the center, which provided considerable incentives for local development (Wei, 2000b). Kunshan was among the first group of counties in Jiangsu where decentralized fiscal and investment systems were implemented. Central government also encouraged counties to establish interregional business relations with cities, thereby fully utilizing urban resources. Second, central government permitted Kunshan and other selected counties to open up for foreign investment and trade. Investment incentives in Jiangsu (especially in Sunan) were among the most generous in China outside special economic zones (SEZs). As a consequence of aggressive lobbying and its success in attracting FDI, central government designed KETDD as the first national-level open district of a county and facilitated Kunshan’s efforts by providing more preferential policies. Third, China’s nonstate enterprises, especially its TVEs, enjoyed more favorable government policies—such as lower tax rates and flexible labor practices—than those implemented in state-owned enterprises (SOEs). Fourth, as will be elaborated in later sections, Kunshan has also benefited from China’s regional restructuring, during which some interior industries, especially those in the Third Front region, relocated to the coastal region. In addition, Kunshan benefited from the outward expansion of Shanghai’s industries partly because of problems with SOEs and old cities.

The power of local states in China—city and county governments in particular—lies in the decentralization policy, the new cadre-promotion mechanisms, and the nature of Chinese society. Although the economic system under Mao was largely centralized, decentralization policies in the late 1950s and early 1970s provided some decisionmaking power to local governments and managing experience to local agents. Post-Mao reforms have given local authorities, especially those in coastal China, considerable power in decisionmaking and resource allocation. Central government has encouraged reform from below. China’s macroreform policies partly result from bargaining with localities and therefore differ greatly from region to region. Meanwhile, China’s economic reforms have created an environment that presses local states to accelerate economic growth. Those local government officials who have succeeded in achieving local economic development can be promoted or given increased control over their administrative areas. Because of the success of Kunshan, Vice Mayor Wang Guoxing was promoted to Vice-Mayor of Suzhou Municipality (prefecture level). The interdependence between local governments and enterprises further stimulates the bargaining efforts of local officials and the pursuit for growth. The power of local states has been sustained by the weakness of the private sector, the slowness of political reforms, and the absence of a civil society (corruption being a byproduct). Consequently, local states exert greater control over capital, land resources, and development process. Local governments in Sunan have actively initiated policies that stimulate local economic growth and make a great difference to macroreform policies in China.

The government of Kunshan acts as a development/entrepreneur state and plays a critical role in local development. First, the Kunshan government acts as a reformer of socialist institutions and attempts to improve local development conditions. Since a new leadership emerged in 1984, its leaders have emphasized industrial growth and the

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(2) In the mid-1960s, to prepare for wars, China was divided into three strategic fronts (Ma and Wei, 1997). The First Front refers to the coastal and border areas that would be the first to face attack in a war. The Third Front includes the vast interior region south of the Great Wall and west of the Beijing–Guangzhou railway. The areas in between were the Second Front.
use of foreign capital, which represents a clear break with the past when the emphasis was on agriculture. The Kunshan leadership was centered on the reform/entrepreneur-oriented Mayor (Wu Kequan), whose power was strengthened by decentralization and the promotion of a group of reformers and technocrats to leadership positions (for example, Vice Mayor Wang Guoxing who was a technician/manager of a biochemical factory in Kunshan) (Zhang, 1994). Kunshan has led the province in obtaining more decentralized, open policies from provincial and central governments by promoting local advantages and utilizing place-based networks. Numerous high-ranking government officials and well-known scholars (for example, Vice Premier Zou Jiahua, Governor Han Peixin, sociologist Fei Xiaotong, and economist Xue Muqiao) have been invited to Kunshan, in an attempt to generate publicity and to receive more preferential treatment from central and provincial governments. With the support of central and provincial governments, Kunshan has initiated numerous local policies to stimulate development, including financial reform, labor reform, infrastructure development, and open-door policies. In the early 1990s Kunshan’s urban plan envisioned further improvement in urban infrastructure and provided substantial land for industrial and population expansion (figure 4). The Kunshan government has attempted to improve education and technology by providing favorable policies to attract educated workers and technology-oriented investment projects. From 1984 to 1993, 7000 college and professional school graduates were attracted to Kunshan (Zhang, 1994). The government also allocated some of its increasing revenue for technical innovation, education, and professional training.

Second, the government of Kunshan acts as an agent in capital accumulation and negotiating regional and global capital. To secure capital for economic growth, the government successfully negotiated with the provincial government to increase local retention of revenue, and became the first county in Jiangsu allowed to grant land-use rights directly to developers (Fei et al, 1999). Kunshan established the KETDD Administration Commission in 1990 to function as a major arm of government. Kunshan Industrial Development and Investment Corporation, a major enterprise controlled by the commission and a government-backed company, invests directly in joint ventures and shareholding enterprises with land resources and government funds (Policy Research Offices of the Communist Party, 1992). The Kunshan government has monopolized the land-development process, and turned farmland into capital for land compensation and development. Kunshan leads the counties in Jiangsu in creating innovative ways to transform land into capital for economic growth (Yu, 1995). The municipality has been particularly aggressive in initiating favorable local policies to attract foreign investment, which will be discussed in a later section. It has also helped to establish extensive networks with numerous cities in China to secure capital, technology, and raw materials for industrial production.

Third, local officials act as entrepreneurs in creating and managing enterprises, including SOEs, TVEs, and joint ventures with foreign investors. KETDD officials are directly involved in industrial development and the production-management process. Such governments functions are particularly common in Jiangsu Province, which is known for its TVEs. These are semistate in nature: owned collectively, directed largely by local officials, but operated mainly under market mechanisms. Assets and management experiences of SOEs and TVEs have also attracted the interest of foreign investors. Joint ventures of SOEs and TVEs with foreign investors

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(3) Fei et al (1999) partly revealed how KETDD became a national-level open district—by seeking the support of higher ranking governmental officials, well-known scholars, place-based networks, and Jiangsu’s delegations to the People’s Congress.
tend to be jointly managed by local government officials and foreign investors. Local states have also acted as facilitators who attempt to create better environments for the development of joint ventures, sometimes even by limiting the growth of private enterprises.

Central and provincial governments are responsible for creating macro-environments for economic growth, and have also provided some preferential policies to Kunshan that were not available to other counties in Sunan. The local state in Kunshan acts both as a facilitator and as a director. As a facilitator or a developmental state, it strives to create an environment for economic growth and attracting foreign investment. As a director, it acts very much like an entrepreneurial state that directly leads economic development and manages industrial production. The influence of Chinese local states in local development is much stronger and more extensive than their counterparts in the United States and other Western countries where numerous scholars have highlighted the role of local states (for example, Leitner, 1990). As I will discuss further, the emphasis in Kunshan on FDI resulted partly from the strategic choices of a new leadership, who did not follow the orthodox Sunan model which emphasizes TVEs.

The importance of local development conditions
The functioning and strategic choices of the local state, however, are embedded in local development conditions. Local governments rely on local resources to stimulate economic growth, and local conditions strongly influence their strategy and daily operation. In other words, there are strong geographical foundations for the practice of local states, and local conditions are particularly important for their respective development. The important local development conditions in Kunshan include prereform development experiences and economic base, location and transportation, place-based networks and spatial linkages, and education and human capital.

First, Kunshan's prereform development experience exerts some influence on its post-Mao growth. Kunshan is located in the Tai Lake (Taihu) region (including Sunan, part of the Yangtze Delta Plain), which provides a favorable setting (for example, abundant rainfall, fertile soil, and a well-established water irrigation system) for fisheries and agriculture. Historically the Tai Lake region was one of the most prolific agricultural regions and richest places in China where urban and rural areas have long-established close ties. Kunshan's Yushan Town was founded more than 2000 years ago, and Kunshan has enjoyed a high level of education and a reputation for creativity. In the Tai Lake region, education has always received a high priority from local officials and families. Over the years, many Kunshanese have achieved important positions in government and business, and some of them have helped to bring resources and preferential policies to Kunshan. The best-known intellectuals and inventors include Gu Yanwu and Wang An (the founder of the Wang Laboratory in the United States).

The historically developed networks and the tradition of emphasizing education have been further strengthened during the reform period. As will be elaborated further, the place-based networks of Kunshan, much stronger than those of other counties in Sunan, have helped the establishment both of economic linkages and of joint ventures in Kunshan. Gu Ming, Vice Secretary of State Council who was originally from Kunshan, played a critical role in the construction of the branch plant of First TV of Shanghai in Kunshan (Yang, 1999). Gong Zhaoyuan, a Kunshanese who was an advisor to the Shanghai Economic Commission, was instrumental in the establishment of joint ventures between Kunshan and Shanghai in the early 1980s (Yang, 1991).
The recognition and approval of KETDD as a national-level open district are at least partly thanks to the support of Kunshan-based networks. Considerable efforts have also been made in further strengthening education and human capital. Kunshan began to establish professional schools as early as 1983, and provided substantial subsidies to teachers to improve their working and living conditions (Yang, 1991). In 1990 the number of scientific and technical workers per 1000 people in Kunshan was ranked in the top ten among all counties in Jiangsu (JSB, 1991). Networks and human capital provide a basis for the development of Kunshan and the successful implementation of Kunshan's development strategies.

Second, Kunshan has established a strong industrial base and remains an important agricultural producer in Jiangsu. The city of Suzhou was the capital of the Prince of Wu around 500 BC and emerged as a military and economic center for a vast surrounding area. During the Tang dynasty (618 – 907) and Song dynasty (907 – 1279), the Yangtze Delta developed into China's most prosperous region, with a booming handicraft industry and trading activities. The economic condition of Sunan was further strengthened during the Ming dynasty (1368 – 1644) and the early Qing dynasty (1644 – 1840) by industrialization, especially the development of cotton and silk production. With further industrialization in the late 1800s and the construction of railways and the emergence of Shanghai in the early 1900s, Sunan established numerous modern industries. At the beginning of the 20th century, Jiangsu had established 155 modern enterprises and, by 1932, Jiangsu had 4652 modern enterprises and employed 108 000 workers (Editorial Committee, 1989). Most of these enterprises were located in Sunan, making Suzhou, Wuxi, and Changzhou China's major industrial centers.

Although industrial growth was slow during Mao's era, Mao did pay some attention to urban-centered industrialization. Moreover, in the early 1970s the state encouraged economic decentralization and rural industrialization, stimulating the development of rural enterprises in Jiangsu, particularly in Sunan. In 1978 industrial output in Kunshan accounted for 38.4% of GVIAO, considerably higher than that in 1950 (15.6%), despite the fact that agriculture still produced more than industry. Post-Mao economic reforms have provided favorable conditions for the development of TVEs, including low tax rates, deregulation of prices, budget bonuses for growth, and new labor policies. Sunan had a larger proportion of nonstate enterprises to begin with, and therefore quickly capitalized on the reform policies that favored nonstate sectors. Kunshan, as part of Sunan, also made considerable progress in developing TVEs. In 1983 the municipality's industrial output was 56.5% of GVIAO, and surpassed agricultural production for the first time. SOEs and TVEs served as a basis for initial capital accumulation and establishing joint ventures with foreign investors. Still, because of a late start and policy emphasis on agriculture, Kunshan lagged behind other counties in Suzhou in industrialization.

With the implementation of rural reforms and technological improvements, agricultural productivity has also risen. In 1988 and 1990 the Department of Commerce and State Council rewarded Kunshan for its achievement in rice production. In 1993 Kunshan was once again named one of China's most important bases for commercial rice production. Agriculture provides capital and raw materials for industrial development and food for rising numbers of urban residents. The improvement in agricultural productivity also enables the release of surplus labor for urban industrial production and helps to create a rural market for industrial products.

Third, Kunshan enjoys advantages of location and infrastructure, superior to all other counties in Sunan. Kunshan has long been connected to north China and the Yangtze Delta through its well-established river and canal systems, including the
Beijing–Hangzhou Grand Canal. The Nanjing–Shanghai Railroad, which links Kunshan with major cities in north and east China such as Shanghai, Suzhou, Wuxi, Changzhou, and Nanjing, was one of the earliest railroads built in China. Most significantly, Kunshan's distance and travel time to Shanghai by rail is the shortest in both Sunan and Jiangsu. In addition, State Highway 312 also connects Kunshan to these cities. Transportation conditions have further improved by the recent development of the Nanjing–Shanghai expressway and, once again, Kunshan is the closest to Shanghai. As Yushan is only 55 km from Shanghai and 37 km from Suzhou, Kunshan is very much a suburban area of both Shanghai and Suzhou. Kunshan's advantages in location and transportation can hardly be matched by any other place in Sunan, Jiangsu, or China, and lays the foundation for growth through intimate economic linkages with these cities.

Fourth, the development of Kunshan, like other areas in Sunan, is closely related to large cities that provide capital, markets, subcontracting linkages, and technical know-how. Urban and rural areas in Sunan have had close economic linkages, and numerous small towns have long linked the rural economies to the cities in the region (Johnson, 1993). The Kunshan government has further strengthened such historical linkages by sending numerous delegates to Shanghai and other cities to enhance economic cooperation. As early as 1985, 60% of the factories in Kunshan had already established certain kinds of production relations with enterprises located in cities (Zhang, 1994). In 1987 Kunshan had already established 298 cooperative projects with enterprises in other parts of China, and a few joint ventures with foreign investors (Wang et al, 1990). Such geographically embedded economic linkages have contributed to the growth of Kunshan as well as counties in Jiangsu during the reform period.

The economic links with Shanghai, benefitting from close proximity, historical ties, and the efforts of local governments, have been particularly important to the development of Kunshan. Jiangsu has had historically close links with Shanghai. Shanghai seceded from Jiangsu in 1927 to become a provincial-level administrative unit. In 1958 ten counties from Sunan were incorporated by Shanghai administration. During Mao's era, numerous youths and intellectuals in Shanghai were ‘rusticated’ to Jiangsu, most often to Sunan. They became the primary source of technical and management know-how for the initial development of TVEs in Sunan, and forged production and marketing ties between Shanghai and Sunan. Some of them still reside in Jiangsu, as they were not allowed to return to Shanghai because of the strict population-control policy.

During the 1980s Shanghai faced a tough challenge from SEZs and other coastal open cities that enjoyed more favorable reform policies. Because of tight control by central government, lack of space for expansion, and shortage of raw materials, many SOEs in Shanghai lost money in operation and Shanghai faced fiscal difficulties. Some of the SOEs, especially those in manufacturing, began to establish outsourcing relations or branch plants outside Shanghai. Most of these production relations were with the nearby Jiangsu and Zhejiang provinces, because of their close ties and cheaper transportation costs. As KETDD is only 55 km from Shanghai (45 km from Shanghai Hongqiao International Airport and 100 km from Shanghai Pudong International Airport), it naturally became a favorable location to outsource Shanghai’s production and industrial relocation. Although enjoying easy access to Shanghai, Kunshan, as part of Jiangsu Province, avoided the strict state control imposed on Shanghai during the 1970s, 1980s, and early 1990s, making Kunshan superior to other counties in Sunan and suburban counties in Shanghai. In 1985 a branch plant of First TV of Shanghai began construction in Kunshan,
paving the way for development to follow.\(^{4}\) In 1987, 68.8% of Kunshan’s domestic cooperative projects were with Shanghai (Wang et al, 1990). In 1988 Kunshan’s development district and Shanghai had already jointly established more than ten factories. In 1991, 27.8% of input procurement and 39.4% of markets for rural enterprises in Kunshan were with Shanghai (Marton, 2000).

Besides Shanghai, Kunshan has established production linkages with many other cities in the Yangtze Delta, particularly Suzhou and Wuxi, two powerful economic centers in Sunan. Before the founding of the People’s Republic of China, industries in those cities had already provided Kunshan with industrial products and markets for labor and raw materials, as well as building branch plants in the region (Wang et al, 1990). During the reform period, Suzhou Children’s Silk Clothes were among the first to build a branch factory in Kunshan. In 1987, 10.4% of Kunshan’s cooperative projects were with enterprises of cities and counties in Suzhou Municipality (Wang et al, 1990). Such production relationships can also be seen in enterprises recently established by foreign investors in those cities.

Kunshan has also established networks with cities and regions in other parts of China. During the early stage of development, Kunshan paid special attention to defense-oriented factories built in China’s Third Front area. Kunshan believed that those factories still enjoyed some technological advantages and that Kunshan’s closeness to Shanghai would make it attractive to those products targeting the Shanghai market and those workers who were unable to return to Shanghai because of population control (Fei et al, 1999; Yang, 1991; Zhang, 1994). Those factories were established during the 1960s and early 1970s for preparing for the perceived war with the West, with locational principles of “shan, san, and dong” (in mountains, dispersal, and in tunnels) (Ma and Wei, 1997). With the end of the Cold War and declining state support, lack of resources, poor accessibility, and limited development potential, some of the factories were forced to move out of the mountain areas. Several such factories, including the Kunshan branch of Fonghua Refrigerator of the former Ministry of Aerospace Industry, were among the earliest domestic joint ventures established in Kunshan. The establishment of a joint venture between Kunshan and Chongqing Automobile was also a result of the efforts of Chen Shisheng, a Kunshanese who was the Party Secretary of Chongqing Automobile (Yang, 1991). Through networks, local advantages and the efforts of local states, Kunshan effectively attracted domestic and international investment. Therefore, the development of Kunshan must be explained in relation to the ties with Shanghai, the cities in Sunan, and other regions.

Although some local conditions prevail in many regions of China, others are geographically specific to Kunshan, such as location, locally dependent initiatives, and geographically embedded networks. Local governments have to evaluate carefully local conditions, and implement initiatives that fully utilize local resources. Specific local development conditions provide foundations for the formation and success of local development strategies. As will be elaborated in the next section, foreign investors, in their locational decisionmaking, have to evaluate local development conditions, as well as their own needs and government policies. Local development

\(^{4}\) In January 1986 when participating in the evaluation of the County Plan of Kunshan (1986–2000), I visited the construction site and raised concern about the overcapacity of the television production in China and the competitiveness of a television factory in Kunshan. The local official leading the site visit was confident that a joint venture with Shanghai would ensure the success. The original investment was returned within three years (Zhang, 1994). In 1988 the factory had a profit of 10 million yuan, with Shanghai receiving 6.5 million yuan, and Kunshan the difference (Fei et al, 1999).
conditions provide geographical bases for Kunshan’s development strategies and rapid economic growth, although these conditions alone do not determine which strategies the leadership may choose and development paths Kunshan may take.

The emergence of foreign investment and trade
Kunshan has recorded dramatic growth in foreign investment and trade, which has greatly contributed to its recent phenomenal growth, especially during the 1990s (figures 5 and 6). Kunshan was among the first group of counties in China to be opened up for foreign investment. In 1985 all cities and counties in Sunan, including Kunshan, became open areas. These local governments obtained preferential policies in the approval of investment projects, tax relief for using foreign capital, tariff reductions on imports, and the retaining of exchange earnings. Sunan also has other advantages in attracting foreign investment, including a strong economic base, a better educated labor force, proximity and close ties to Shanghai, and better integration with the global economy. Favorable state policy and local conditions have steered the bulk of foreign investment to Sunan. In 1995, 72.1% of FDI in Jiangsu was concentrated in Sunan, with Suzhou Municipality alone attracting 48.7% of FDI.

Kunshan’s KETDD is the earliest and largest development district opened up for foreign investors among counties in Jiangsu and in Suzhou, and often the largest in terms of the amount of foreign investment. Established in 1985, the district was largely self-financed, with little support provided by provincial and central governments. The efforts of innovative management, as well as locational advantages, made the district a success in attracting investment. This success gradually attracted provincial and national attention. KETDD was named one of the key development districts in Jiangsu Province in 1990. In 1992 KETDD became a national-level development district, the only such district granted to counties at that time. Consequently, Kunshan received considerable autonomy and preferential policies in dealing with foreign investment and trade. The treatment accorded by central government to Kunshan was more preferential than to any other counties in Sunan, which reinforced the locational advantages of Kunshan and its attractiveness to foreign investors. In 1997 FDI in Kunshan reached US$529 million, and exports were US$1.1 billion, leading all counties in both Suzhou

![Figure 6. Growth of foreign direct investment in Kunshan (US$ million), 1987–98 (source: JSB, 1994–99).](image-url)
and Jiangsu (table 2). Kunshan has been totally transformed from an agriculture-based county to an industrial municipality with considerable foreign investment and trade.

Kunshan’s FDI in 1997 (US $529 million) was even larger than that of Wuxi (US $450 million), although less than that of Suzhou (US $778 million), which is very impressive given the fact that both Suzhou and Wuxi have much larger urban populations and are prefecture-level cities. Suzhou is also the location of China’s largest Singapore Industrial Park, has strong support from the central governments of China and Singapore, and enjoys locational advantages over other localities in Jiangsu, even Nanjing. A group of well-known foreign companies have invested in Kunshan, including DuPont (United States), Mitsubishi (Japan), Toyota (Japan), and Alcatel (France). Kunshan’s proximity and linkages to Shanghai facilitated FDI in Kunshan so that foreign firms can take advantage of cheaper land and strong local government support in Kunshan, as well as Shanghai’s strength in technology, infrastructure, and industry. For example, Kunshan Sanjian Model Machine Co., a joint venture between Japan and Kunshan, produces auto parts for Shanghai-VW Co.

FDI and foreign-invested enterprises (FIEs) have become important components of Kunshan’s economy. In 1997 FIEs controlled 9.72 billion yuan in fixed assets, which accounted for 69.1% of total fixed assets in Kunshan (KSB, 1998b). Foreign investors provided 58.7% of the investment in municipality-owned enterprises (only 0.4% of capital was from the state budget). With the dramatic increase of FDI, FIEs have become a major source of job growth in Kunshan. In 1999 Kunshan had 107,118 people employed in FIEs—more workers than any other sectors in Kunshan or any other counties in Suzhou (table 2). FIEs tend to provide higher wages for their workers, and the multiple effects of FDI have also provided job and income opportunities for local enterprises that have developed production relations with FIEs. FIEs in Kunshan also provided 56.9 million yuan in taxes and fees to the government in 1999.

In comparison with other counties in Sunan, Kunshan has clearly stood out in the significance of foreign investment in economic development, which is very different from the typical Sunan model centered on the development of TVEs. The nature and property rights of TVEs were never clear and, with the deepening of economic reforms, such a form of ownership created some problems in property rights, income distribution, and party—enterprise relationships (Kung, 1999). In addition, TVEs tend to be small and lack economies of scale and agglomeration. Their labor force tends to be less well trained, and TVEs are less capable in technical innovation and improving management of modern corporations. In 1993 reforms of the ownership structure of TVEs were initiated in some rural areas, and have accelerated since 1996. Alternative forms of ownership have been introduced into TVEs, including shareholding systems and joint ownership with foreign and private investors. The process of restructuring TVEs has been painful, and to a certain extent led to the loss of collective assets and slower industrial growth. Although reliance on TVEs and external orientation of development strategy are not totally mutually exclusive, Kunshan does have advantages over other counties in Sunan through channeling considerable resources to FIEs, rather than to TVEs. The key tasks of Kunshan’s leaders are centered on external investment, and most of the reforms are implemented in this area, which contrasts sharply to other counties in Sunan emphasizing TVEs. Kunshan therefore has captured the opportunities created by the deepening of economic reforms and open-door policy in the 1990s, and has been less affected by problematic TVEs than have other counties in Sunan. It led Sunan in developing Sino—foreign joint ventures and shareholding companies and, consequently, led Sunan in economic growth. Although it was not evident that in

(5) Interview with former TVE workers in Wuxi County, 1998.
the 1970s and 1980s external orientation was superior to reliance on TVEs, with further marketization and globalization in the 1990s it turns out that Kunshan made the right decision.

Kunshan’s growth in foreign investment and trade is better explained in terms of globalization, state policies, and local conditions, rather than as simply the result of global capitalism searching for cheap labor. China is presented with favorable development opportunities related to global restructuring and the expansion of core capitalist economies (for example, Japan and United States) and Asian NICs (Hong Kong, Taiwan, South Korea, and Singapore) into the developing countries in Asia. The efforts of the Chinese government in promoting foreign investment and trade also make investment in China profitable. Coastal China’s favorable development conditions, government policies, and social networks prompt foreign investors to concentrate their capital in selected coastal locations, include Kunshan.

Besides favorable macroconditions, networks, and locational advantages, the role of the local state is important to the growth of foreign investment and trade in Kunshan. In 1984 Swan (Japan) was the first foreign enterprise established in Kunshan, attracted by Kunshan’s infrastructure, location near Shanghai, local government, and development potential. Swan’s decision clearly shows the importance of local conditions and local states in the location of foreign investment. This event was inspirational to Kunshan’s leaders, who at that time were under pressure to improve the economy, because it was the weakest among the counties in Suzhou Prefecture. The county had established some TVEs, which, however, were not competitive with other counties in Suzhou prefecture. Attracting foreign and domestic investment appeared a good way to develop local economies and to surpass the neighboring counties. The government decided to use the development district (that is, KETDD) on the east side of Yushan Town, the first such district among Sunan’s counties. The district initially had an area of 3.75 km², but was enlarged to 6.18 km² in 1987 and to 20 km² in 1992 (Zhang, 1994).

To make the district more attractive to investors and powered by decentralization, the Kunshan government emphasized infrastructure improvement and investment management, which once again led other counties in Sunan and, later, was imitated by many other localities in China. First, the government was innovative in introducing a series of reform policies to improve investment conditions. Kunshan’s tax incentives for foreign investors were among the most favorable in China. As the first national-level development district granted to counties and backed up by locational advantages and Kunshan-based networks, Kunshan was authorized to approve investment projects up to US $30 million and to establish a local branch of customs to serve foreign investment and trade directly. Contract responsibility and incentive systems also stimulated the efforts of local officials to improve investment conditions.

Also, efforts were made to improve the infrastructure and other factors of production, including transportation, electricity, communication, water supply, sewage, gas, land conditions, and labor force. With the emergence of a new leadership in 1984, Kunshan was opened up to foreign investors in 1985, and massive construction was underway. By 1988 major roads, bridges, water pipelines, and electricity had already been built in KETDD. Since the 1990s infrastructure conditions have been further improved by the construction of a freeway to strengthen the spatial connections of Sunan to Shanghai, Nanjing, and other key cities in China, further strengthening Kunshan’s superior locational advantages over other counties in Sunan. Kunshan has

(6) Interview with local officials in 1998. According to them, the location of Kunshan was the primary factor in attracting Swan’s attention to Kunshan, which, as well as the development district and the efforts of the local government made the investment a reality and profitable.
been leading counties in Sunan and even in China in granting land to foreign investors for development (chu rang). The government has also worked closely with foreign firms to recruit workers and solve labor disputes effectively.

Third, the government emphasized efficiency in the investment-approval process and provided administrative and financial support for foreign investors. The KETDD administrative commission was established to provide a one-stop shop for investors, and it acted as an arm of the Kunshan government, providing capital, labor, equipment, and land for joint ventures with foreign investors. The Kunshan government can even facilitate foreign investors' applications for visas. New buildings hosting the municipality government, the KETDD administrative commission, customs, and government-controlled banks, etc. were built in the new district to improve their services to investors (figure 4). To attract foreign investment, the government has sent numerous delegations to developed countries, Asian NICs, and major Chinese cities to promote the investment conditions in Kunshan to foreign investors and to establish joint ventures and production networks with foreign firms.

Fourth, considerable efforts were also made to make Kunshan an attractive place to live. Kunshan was praised by central government as one of the most sanitary (weisheng) cities. The Kunshan government has also used the notions of a livable city and quality of life to attract the interest of foreign investors. Kunshan has easy access to recreational and tourist sites within the municipality and all of Sunan. Moreover, new hotels were built to host foreign investors and managers, with television channels based in the United States, Japan, Hong Kong, and Europe. Numerous international restaurants and service-oriented companies to serve foreign investors have been set up in Kunshan, which provide great support for doing business and living in Kunshan. Many of these services cannot be found in other counties in Sunan and once again made Kunshan superior to Sunan's counties.

Kunshan has been especially successful in attracting investment from Asian NICs, which have undergone dramatic economic restructuring and outward investment in developing countries, including China (table 3). Major sectors of foreign investment include machinery, electronics, textiles, chemical, and food industries. Although Hong Kong has dominated FDI in Kunshan, investment from Taiwan increased rapidly since the late 1990s. With rising wages and increasing competition in Asian NICs, many Taiwanese investors began to search for cheap labor and emerging markets in Asia. With Taiwan's close cultural ties to China and China's favorable government policies towards Taiwanese investors, investment from Taiwan increased rapidly and Taiwan has recently become the second largest source of FDI in China.

Jiangsu is as attractive to Taiwanese investors as the provincial capital, Nanjing, was to the former national capital of the Republic of China (Taiwan). Such historically established social networks and cultural affiliation helped to connect Taiwanese investors to Jiangsu and to make Jiangsu a favorable host location for Taiwanese investment. Kunshan has benefited from being part of Jiangsu Province with its geographic closeness to Shanghai. The government has also made considerable efforts to attract investment from Taiwan. Kunshan was well prepared by an early start in establishing the KETDD and implementing a series of open-door policies. Kunshan is ideal for Taiwanese investors who generally tend to avoid political centers and favor working nearby areas.

(7) A general manager and business owner in Shanghai I interviewed in June 2002 is particularly impressed by Kunshan’s efficiency in the investment-approval process and management, which, according to him, is much more efficient than Shanghai’s Pudong District.

(8) Interview with local officials in 1995.

(9) Officials in Suzhou Municipality interviewed in 2001 stressed the earlier start and locational advantage of Kunshan over other counties in Suzhou.
with local governments to obtain preferential policies. Locational advantages and governmental efforts have made Kunshan the most favorable place in Sunan for attracting investment from Taiwan. Major Taiwanese companies that have invested in Kunshan include President, Cheng Shin Tire, Compal, Giant Group, and Gloat Glass.

Therefore, local efforts and factors, macroconditions, and global restructuring have all contributed to the emergence of foreign investment in Kunshan. Globalization or local states alone cannot explain the rise of foreign investment and trade in Kunshan, and the success of local policies in attracting foreign investment also relies heavily on local development conditions. Again, there are strong geographical foundations for the locational choice of foreign investment and the functioning of local states.

**Discussion and conclusion**
Kunshan's rapid economic growth, however, is not free from problems, and Kunshan is facing new challenges. First, institutional frameworks guiding the behavior of local governments are not well established. Authoritarianism and insatiable government spending have accompanied the strong local states. For example, in 1996, government administrative spending accounted for 16.7% of local expenditure in Kunshan (KSB, 1998). A considerable amount of local revenue has been spent in building modern, spacious government offices, which contrasts with China's recent institutional reforms aimed at cutting government spending.

Second, the private sector is less developed in Kunshan. In 1995 output of private/individual enterprises in Kunshan accounted for only 2.1% of total industrial output (KSB, 1996). FIEs tend to hire college graduates or cheap rural migrants, creating a dual labor market and providing limited job opportunities for less-educated urban workers. Among the 1900 students who graduated in July 1998 with degrees from local professional schools and colleges, more than 50% had not found employment by August (Kunshan Gazette 1998). Developing the private sector and providing jobs for urban residents remain challenging tasks for government and enterprises in Kunshan.

Third, there are also problems related to sustainable urban and regional development. To attract foreign and domestic investments, massive amounts of agricultural land have been transformed into development districts for industrial use, as evidenced by comparing figures 3 and 4. As a result, land available for agriculture and future development has declined dramatically. It has become difficult for Kunshan to raise

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**Table 3. Sources of foreign direct investment in Kunshan (US$ million), 1997 (source: KSB, 1998).**

<table>
<thead>
<tr>
<th>Region</th>
<th>Amount</th>
<th>Percentage</th>
<th>Country</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>443</td>
<td>79.2</td>
<td>Hong Kong</td>
<td>412</td>
<td>73.7</td>
</tr>
<tr>
<td>Latin America</td>
<td>61</td>
<td>10.9</td>
<td>Taiwan</td>
<td>139</td>
<td>24.9</td>
</tr>
<tr>
<td>Europe</td>
<td>27</td>
<td>4.9</td>
<td>Japan</td>
<td>53</td>
<td>9.5</td>
</tr>
<tr>
<td>North America</td>
<td>27</td>
<td>4.9</td>
<td>South Korea</td>
<td>36</td>
<td>6.4</td>
</tr>
<tr>
<td>Australia</td>
<td>1</td>
<td>0.2</td>
<td>United States</td>
<td>21</td>
<td>3.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Singapore</td>
<td>16</td>
<td>2.9</td>
</tr>
<tr>
<td>Total</td>
<td>560</td>
<td>100.0</td>
<td>Total</td>
<td>560</td>
<td>100.0</td>
</tr>
</tbody>
</table>

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(10) Interview with local officials in 2001. Taiwanese investors are also sensitive to land price, which in Sunan is lower than in Shanghai.

(11) Interview with officials at Suzhou Municipality in 2001. They also mentioned recent efforts and progress made by Wujiang in attracting FDI, but its FDI is still less than that of Kunshan.
agricultural output, partly because of the loss of agricultural land to urban and industrial development. Numerous low-rise, garden-like factories occupy much of the newly developed districts, and land has become scarce because of high population density and rapid urban and industrial expansion. More than 30,000 rural residents were displaced through the establishment of KETDD (Zhang, 1994). Much of the land granted for development, up to 64.1% in 1994, was used by manufacturing industry (Yu, 1995), leaving little for other uses, such as services and public space. Although these problems are common in China, the Kunshan government has made considerable efforts to address the issue. Such rapid growth also led to the efforts of county development planning (Jiangsu Provincial Institute, 1992; People's Government of Kunshan, 1986). More attention still needs to be paid to improving sustainable development.

The Kunshan study shows that China’s regional development is a complicated process incorporating forces operating at the global, national, and local levels. Kunshan’s development trajectory is shaped and reshaped by a variety of forces. During the 1970s and the early years of reforms, Sunan developed ahead of other places in China by developing TVEs, a practice well-known to the nation as the Sunan model. Kunshan’s economy, however, was oriented more to agriculture than that of other counties in Sunan, with a slower growing economy and fewer TVEs. Since the mid-1980s, Kunshan has recorded dramatic growth and has led other counties in Sunan in attracting foreign investment. Such a development path is very different from the orthodox Sunan model centered on TVEs, or the Wenzhou model marked by the development of private enterprise. The success has attracted the attention and following of other counties.

The globalization and marketization processes, especially since the early 1990s, have reshaped Sunan, making the orthodox notion of the Sunan model inadequate to account for its recent development. Since the mid-1990s, Sunan restructured TVEs by privatization and establishing shareholding companies; TVEs are no longer the leading sector in its economy. Sunan, as shown by the study of Kunshan in this paper, is now known for the massive infusion of foreign investment and for the development of joint ventures and shareholding companies. Although lagging behind other counties in Sunan in developing TVEs, Kunshan has led Sunan in these transformations. Consequently, the conceptualization of the development of southern Jiangsu as described by the Sunan model can only be applied to the ‘old’ Sunan. It has become outdated for understanding the condition of present-day Sunan.

The Kunshan experience shows that an activist local state can spur growth and development. The local state, however, does not act in a vacuum, but is embedded in local development conditions. Their policy initiatives are sometimes inspired by specific incidents, such as the Swan project in Kunshan, and can be location dependent. Geographical foundations—local development conditions in particular—are the basis for the formation and success of government policies. Foreign investors, in choosing locations for investment, tend to consider government policies and local development conditions, as well as their own needs. Moreover, local development conditions are not fixed, but change over time, and are shaped and reshaped by the central state, local states and agents, and foreign investors. State, foreign investment, and local development conditions are the three particularly powerful factors underlying development, and function interactively, as well as independently, producing multiple trajectories of local development in China. Although geography is a critical factor, it is not solely responsible for the fortune of regions, and has to work with proper local development policies to attract foreign investment and make development take place.
This paper has also illustrated the importance of Shanghai, Suzhou, and other cities in the development of Kunshan. I believe that local development, especially the development of small cities, towns, and countryside, should utilize resources provided by (large) cities, such as capital, technology, networks, and markets, rather than simply relying on local resources and communities as advocated by scholars emphasizing empowerment and development from below. Indeed, human capital and interregional networking have become important components of economic and regional development strategy. Rather than spatial closure, enhancing linkages and cooperative relationship among cities, towns, and rural areas should be advocated as a major strategy to improve the wealth of regions.

Is the Kunshan model transferable to other cities and regions in China or in developing countries? Scholars tend to take extreme positions, as some argue that development models such as those of Asian NICs cannot be transferred to other regions, whereas others believe they are replicable. In practice, as I have argued in this paper, local development relies on many factors—some location specific whereas others are common. I believe that some elements of Kunshan’s development experiences (such as local developmental states fully utilizing local and global resources) can be learned by other regions, especially in China. However, although I agree that governments can play positive roles in development, development strategies must consider global, national, and local conditions. To develop the interior region, China in 1993 directed the interior to develop township and village enterprises, following the success of southern Jiangsu. However, the practice in the last few years shows that less progress has been made in the development of TVEs in the interior than expected. China’s interior region, as well as other poor regions, must carefully analyze the global, national, and local development conditions, and formulate proper development strategies. While pursuing local development strategies and analyzing the persistence of poverty and regional inequality, attention must be paid to the importance of geography.

Acknowledgements. I am grateful for the constructive comments from Larry Ma, Henry Yeung, George C S Lin, Andrew Marton, and three anonymous referees. I would also like to acknowledge the cartographical support of Donna Schenstrom at UWM Cartography and GIS Center, and funding from Geography and Regional Science, and China, Taiwan, Mongolia, and Southeast Asia Programs, National Science Foundation (Grant BCS-0004357).

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