

# LOCAL GOVERNMENTS IN EMERGING REGIONAL BUSINESS SYSTEMS

## A Comparative Analysis of Zhejiang and Yunnan Province

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### Abstract

The Chinese economy has undergone a radical transformation since 1979, from a planned economy to a market economy. The economic reform has facilitated significant and rapid economic growth, while regional disparities are increasing in the heterogeneous transitional Chinese economy. As the neoclassical perspective substantially ignores the role of institutions in shaping the economic system and cannot specify how paths are formed and evolve, or how the role of economic actors changes over time, business systems theory and evolutionary theory have been used in this thesis to understand the distinctive evolving regional development trajectories in the transitional Chinese economy.

This research aims to study the changing roles of local governments in influencing the dynamic regional business systems in the transitional heterogeneous Chinese economy. In order to examine the evolving regional business systems, this research: (a) brings the regional state into business systems theory, given that both the varieties of capitalism approach and conventional business systems theory ignore regional differences; (b) connects evolutionary perspectives and business systems theory, given that the varieties of capitalism approach and business systems theory have both been criticized for developing a relatively static approach; and (c) highlights the unique form of decentralization in China which shapes the role of the state and the regional business systems.

For the purposes of this research, Zhejiang and Yunnan have been selected as two contrasting cases to reflect significant regional differences. Four research questions are posed: (a) what are the existing regional business systems in Zhejiang and Yunnan; (b) how and why have specific regional business systems and development trajectories been formed and evolved over time in Zhejiang and Yunnan; (c) how has the role of local governments evolved in the transitional economy; and (d) will regional differences and

distinctive regional development trajectories in Zhejiang and Yunnan converge or diverge over time?

The findings and the answers to the main research questions can be briefly summarized as follows. The research identified a market-led business system in Zhejiang and a state-led business system in Yunnan, both of which show a high degree of regional institutional complementarities (regional coherence). The regional resource base, industrial structure, the strength of the state, the institutional structure, the decentralization reform and promotion system, and the pre-existing regional development path mutually shape the regional development trajectories and lead to strong path dependence and long-term institutional complementarities in both Zhejiang and Yunnan.

Moreover, the highly competitive environment, which has been framed by the unique decentralization reform in China and the promotion system, plays a crucial part in shaping the role of local government and state–business relations, and also strengthens the local industrial development path in the two regions. Zhejiang’s local governments play a regulatory and service-oriented role from a distance, while Yunnan’s local governments strategically coordinate economic activities, directly or indirectly. Finally, the research indicates that the regional differences and distinctive regional development trajectories in Zhejiang and Yunnan are currently divergent, and show no sign of convergence.