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作者简介

The Role of China's Local Governments on Sino-South Korean Diplomatic Normalization: A Case Study of Shandong Province*

Qi Huai-gao

Abstract: Based on the theory of sub-national governments' foreign affairs, this paper analyzes the role played by China's local governments at the time when China's central government was formulating policies to establish diplomatic relations with South Korea. China's local governments, with Shandong Province in particular, made strong attempts to lobby the central government on the economic need for enlarging bilateral trade and drawing investment from South Korea. These efforts played an active role on Sino-South Korean diplomatic normalization and further advanced the realization of diplomatic contacts already underway. Shandong Province's case shows that sub-national governments have been playing ever more important roles in China's overall diplomacy since the Reform and Opening Up of the economy, which began in 1978. In the multi-fold policy-making process by the central and local governments, it appears that the central government needs to respond to the reasonable interest case for engagement made by sub-national governments. How to accommodate the policy interests of the central and sub-national government entities is an important problem facing China's future diplomacy.

Key words: Sino-South; Korean diplomatic; normalization; Shandong; Qingdao; sub-national governments

1. Introduction

Nearly four decades after the end of the Korean War, China and South Korea agreed to normalize diplomatic relations on August 24, 1992. Prior research on Sino-South Korean diplomatic normalization done by Chinese and Korean scholars has focused on analyzing external stimuli, reasons, processes, and influences (Song 207-42; Ilpyong J. Kim and

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Hong-pyo Lee 371-408; Samuel S. Kim 371-408; Hong Yung Lee 97-110). The above research was based upon the traditional realism of international relations theory that takes state-orientation as the basic assumption. China's foreign policy, which is regarded as a rational, high-consensus, united outcome, is the supreme product of pursuing and realizing national interests within the constraint of external factors. Therefore, the diplomatic relationship between China and South Korea was considered to be the natural diplomatic behavior to achieve their respective national interests.

Subsequently, with the deepening of research on Sino-South Korean relations, a few scholars began discussing the internal factors of the two countries and their complex influence on the establishment of diplomatic relations. Jae Ho Chung, a South Korean scholar, analyzed the political dynamics of Sino-South Korean economic relations from the perspective of China's domestic dynamics of interprovincial competition and central-provincial conflicts (Chung 1988: 293-97; Chung 1990: 59-79; Chung 1998: 253-301).

In China, the phenomenon of foreign policy involvement by sub-national governments is becoming noticeable. Foreign policy is not merely a strategic response to external stimuli; it is also a manifestation of domestic political dynamics. With the deepening of China's reform and opening up, there have been greater research interests in sub-national governments' foreign affairs. In the 1990s, several overseas scholars started to analyze the foreign policy implications of this phenomenon (Zheng 309-21; Cheung and Tang 91-120). Recent research includes the following: (1) Chen Zhi-min has analyzed the influence of coastal provinces on China's foreign policy-making. On the one hand, the coastal provinces are able to access the internal policy-making process in various forms to influence the direction of China's foreign policy, particularly foreign economic policy. On the other hand, they have undertaken development of local capacity to engage in direct international activities. Within the international realm, the coastal provinces most commonly act as agents and partners of the central government; however, in certain circumstances, produce unwanted consequences(Chen 2007: 245-66). (2) Zhu Zhi-qun has examined the role of Shanghai and Wang Dao-han in China's American policy making in the 1980s and 1990s. As a former party leader in Shanghai

and mentor of Jiang Ze-min, Wang Dao-han enjoyed unique access to the inner circles of policy making in Beijing. He and his Shanghai associates influenced Jiang Ze-min's position concerning the United States (Zhu 267-86).

Based on the research by the above scholars, this paper proposes the following hypothesis: local governments, out of the economic need for enlarging bilateral trade and drawing investment from South Korea, have keenly lobbied the central government and advanced the case for normalization of diplomatic relations of these two countries.

This hypothesis is supported by the following argument outline. First, I use the theory of sub-national governments' foreign affairs as reference; second, I make a case study of Shandong Province's exchanges with South Korea before the Sino-South Korean diplomatic normalization; third, I analyze the interaction of the central and provincial governments of China in Sino-South Korean diplomatic normalization; and furthermore, I analyze the role of provincial governments in the final decision to achieve diplomatic normalization with South Korea. Overall, this will illustrate the multidimensional and multiple characteristics of China's diplomacy and Sino-South Korean relations.

2. The Theory of Sub-national Governments' Involvements in Foreign Affairs

The foreign affairs of sub-national governments (SNGs) refer to the activities of sub-national governments of a certain country to influence different international actors (individuals, organizations, governments and corporations not submitted to the jurisdiction of the country) and international interactions (Chen 2000: Introduction). Here, sub-national governments are those governments which exert jurisdiction over a certain local area, namely, the local governments under the central government.^[1] Since the early 1970s, many sub-national or

[1] Some Chinese scholars replace sub-national governments with local governments. In this article, the two concepts are interchangeable. China's local governments include provincial governments and sub-provincial governments.

non-central governments in the federal states and decentralized unitary states have begun to engage themselves in foreign affairs. American states, Canadian and Chinese provinces, German *länder*, Swiss cantons, and even some Japanese prefectures have become increasingly visible actors on the international stage. In contemporary China, foreign affairs by local governments meet two conditions. One is that local governments serve as actors to conduct exchanges with other countries; the other is that any exchanges by local governments are to be guided by central foreign affairs principles unconditionally (P. Zhao 23).

The study of subnational governments' involvements in foreign affairs takes three directions: (1) the paradiplomacy school, (2) the multi-layered diplomacy school, and (3) the state-centric school.

The paradiplomacy school tends to focus on the emergence of a new-type international actor, its unique way of international involvement, and how these involvements compete and conflict with national governments' handling of foreign affairs (Lecours 91-114). In Ivo D. Duchacek's opinion, subnational presence on the international scene has become a fact of life in an interdependent world. In some fields of international economy, ecology, energy, and humanitarian or cultural concerns, we may have to get used to the idea that the world is divided not only into 160-odd nation-states but also, in some cases, into their territorial components (Duchacek 1986: 290). Panayotos Soldatos goes further in developing an explanatory framework for treating subnational governments as "foreign policy actors." For Soldatos, from both the qualitative and quantitative aspects, the external activity of a subnational government in federal states has "the constitutive elements of a foreign policy, in that it has an objective, strategies, tactics, institutions, a decision-making process, instruments, and a foreign policy output" (Soldatos 35). Duchacek categorizes three types of paradiplomacy: global paradiplomacy, transborder regional paradiplomacy, and transregional paradiplomacy. Global paradiplomacy involves the interaction of non-central governments with distant nations. Transborder regional paradiplomacy refers to the interaction between national and sub-national governments that are a product of geographic proximity and shared interests. Transregional paradiplomacy differs from transborder regional paradiplomacy in that it describes the interaction among non-central governments (NCGs) that are not neighbours (Duchacek 1990:15-16).

Contrary to the paradiplomacy school, the multi-layered diplomacy school tends to conceive of the increasing involvement of subnational governments in foreign affairs as part of the evolution of the national foreign policy process. Brian Hocking's main argument is that the localization of foreign policy increasingly occurs as an ever-growing range of local groups and governmental agencies perceive themselves to be affected by events outside their national settings, and have the motivation, resources, and opportunity to respond by protecting their interests at both the national and international level. About SNGs' role in international affairs, Hocking argues that subnational or non-central governments should not be regarded as autonomous actors acting separately and in parallel with national governments. Their involvement in foreign affairs, or "localization of foreign policy" as Hocking terms it, "represents the expansion rather than the rejection of foreign policy" (Hocking 26). For Hocking, it is more helpful to accept that there emerges a multilevel political structure and processes that embrace all levels of political activities from the local, through national to the international. These levels intersect with one another in a variety of ways and demand that decision-makers operate in a number of political arenas simultaneously (Hocking 11). Moreover, Hocking adopts a public policy approach to foreign policy, contending that the character of the policy process varies depending on the issues involved. The role and influence of actors, including subnational actors, can vary between stages in the policy-making process, from agenda-setting to implementation (34). By seeing subnational involvement in foreign affairs as an integral part of the expanded national foreign policy process, his theory expects more cooperation rather than conflicts between subnational and national governments in foreign affairs (Chen 2007: 250).

The state-centric conception holds that, of the factors that determine international politics and foreign policies of different states, the power distribution pattern among states is the most important factor. This school of thought holds that sub-national governments' international behaviors remain invisible and do not pose a fundamental threat to the central government. Challenges of globalization further intensify the central government's advantage over sub-national governments. Kenneth N. Waltz, a representative of the Neo-Realist school, believes that those who study the nonstate actors have developed no distinct theory, for a

theory that denies the central role of states will be needed only if nonstate actors develop to the point of rivaling or surpassing the great powers, not just a few of the minor ones. Currently, non-state actors show no sign of doing that. States are the units whose interactions form the structure of international politics (Waltz 95). Domestic politics are simply regarded as a conveyor belt which mechanically converts international requirement into national policies.

Among the three competitive theories mentioned above, paradiplomacy is a territory-centric conception influenced by Federalism and, accordingly, its research focus is on sub-national governments' international behavior within federal states. Therefore, to a centralized state power like China, this model is not adequate for a study of the foreign affairs involvement of local governments. The state-centric conception may reflect much of the "reality" of international relations. However, it ignores the reality that the participation of sub-national governments in international affairs is expanding.

Multi-layered diplomacy carries the theoretical value to analyze China's situation. It believes that sub-national governments are not isolated actors and that there is accommodation between domestic politics and international politics. Although competition is inevitable between sub-national governments and the central government in dealing with foreign affairs, cooperation between them is more usual. Through deconstructing the final process of making foreign policies, the multi-layered diplomacy framework makes it possible to observe the influence of international behaviors by sub-national governments and understand the practical involvement of sub-national governments in China's foreign policy-making.

The involvement of sub-national governments in making foreign policies inevitably leads local governments and the central government to conduct interactions on international exchanges. Therefore, it is necessary to review the relationship between local governments and the central government of China since 1949. The founding of the People's Republic of China in 1949 established a highly centralized unitary state in China, with political and economic powers concentrated in the national government. Since 1978, under the leadership of Deng Xiaoping, China initiated economic reform at home and started to open up to the world. This reform paved the way for the provinces to take a

more visible role in foreign affairs. In the political arena, the central government empowered the provinces with the transfer of responsibilities and powers. The administrative measures taken in this direction were formally codified in the 1982 constitution, which provided that the provincial governments were responsible in the management of local “economy, education, science, culture, public health, physical culture, urban and rural development, finance, civil affairs, public security, nationalities affairs, judicial administration, supervision, family planning,” and so on. In the economic arena, China’s central government began the process of delegating authority from the center and the promotion of local initiatives. Thus, the essence of this new system was to provide provincial governments with financial autonomy and resources, to provide direct incentives for provinces in developing local economies. At the same time, provincial governments obtained control of a majority of state-owned enterprises (SOEs) previously managed by the central government, and the provinces were also allowed to enjoy greater power of investment control and be able to approve larger investment projects at the local level (Chen 2007: 251-52).

After China embarked on the modernization program based on decentralization and the opening-up policy, the central government promoted local initiatives and sought to curb unnecessary bureaucratic intervention. It conferred on the provinces the new authority to sign trade and direct investment agreements with foreign companies, with the size of projects closely monitored by the central government. During the 1980s, since the provinces could retain a portion of their foreign currency earnings, they naturally strove to expand their foreign currency earnings by promoting more trade and by luring more foreign investment. The initial opening-up of China corresponds to geography. For example, Liaoning Province opened up to Japan, Shandong Province to South Korea, Guangdong Province to Hong Kong and Fujian Province to Taiwan. As the opening-up process moved along, local governments developed different interest-orientations (Cheung and Tang 91-120). It could be said that expanding foreign trade and absorbing investment became the driving force for provincial governments to conduct foreign relations. Enlarged provincial incentives for foreign economic relations as well as decentralized administrative networks, however, provided a new source of central-provincial

conflict when Beijing attempted to regulate provincial over-enthusiasm (Woetzel 142-43; Shirk 60-64). Shandong's exchanges of trade with South Korea were also conducted in this context. With the increasingly close contact with South Korea in the economic arena, Shandong Province keenly influenced Sino-South Korean diplomatic normalization.

3. Shandong-South Korean Economic Cooperation and Its Influence on Sino-South Korean Diplomatic Normalization

The driving force for Shandong Province to develop exchanges with South Korea was to expand trade and lure investment. Ever since the Shandong provincial government received permission from Beijing to open doors to South Korea's direct trade in 1988, the annual trade volume between the two entities has soared rapidly. Shandong's direct export volume reached US\$50.8 million in 1998 (S. Zhao 20). In 1991, the sum volume of export and import between Shandong and South Korea was US\$280 million (in contractual amount), and reached a new record of US\$420 million (in contractual amount) in 1992, when Sino-South Korean diplomatic normalization was realized. In September 1990, two harbor cities, Weihai and Qingdao, took the lead to open the ferry routes between China and South Korea's Inchon, which made it more convenient for the two countries to trade. In May 1991, vice-governor Ma Shi-zhong joined the CCPIT (China Council for the Promotion of International Trade) delegation to visit Seoul for the China Economic and Trade Exhibition. This was the first time that a Shandong provincial leader had visited South Korea. On October 20, 1990, the China Chamber of International Commerce (CCOIC) and the Korea Trade Promotion Corporation (KOTRA) signed a memorandum of understanding. In this memorandum, the two parties decided to mutually establish representative offices in Seoul and Beijing as soon as possible.^[2] On May 22, 1992, Shandong Foreign Trade Corporation Seoul Representative Office obtained the official permit

[2] KOTRA established its representative offices in Beijing on January 30, 1991 and CCOIC established its representative offices in Seoul on April 9, 1991.

from the Bank of Korea and became the first representative office of a Chinese local government in Seoul.

In the investment field, South Korea's investment was mostly concentrated in Shandong Province. According to Table 1, there were 13 investment plans in Shandong between 1984 and 1989, 30 plans from 1990 to 1991, and 43 plans at the end of 1991 before the diplomatic normalization of the two countries. Shandong's investment plans took 24% of the sum of investment plans(179 plans) from South Korea in China(see Table 1). Besides, Liaoning and Heilongjiang also lured significant portions of South Korean investment. However, it must be noted that, South Korean firms were more cautious in making investment decisions than engaging in trade. This is understandable, because investments in a country with which South Korea had no diplomatic relations involved high risks. In 1985-87, for instance, all South Korean investments were facilitated by utilizing the front companies based in third countries. It was only in 1988 that two cases of direct investment were made with the Seoul Olympic blessing(Chung 1993: 283-85). Most of the South Korean investment deals were small in size — an average size of US\$0.9 million; and they were export-oriented, aiming at utilizing China's low labor cost rather than China's domestic market, which was still fairly hard to penetrate.^[3] South Korea's conglomerates have been extremely cautious to invest large amounts because institutional mechanisms for investment guarantee have been lacking. Nevertheless, at the end of 1991, South Korea's investment amount (in contractual amount) reached US\$50 million, while the actual amount was US\$20 million.

At the time, the lack of normal diplomatic relations between China and South Korea caused trouble and inconvenience in signing investment agreements between them. A failed joint-venture deal revealed this kind of negative effects. In late 1984, three executives from the Korean Shipbuilding and Construction Company came to China with a project to construct a harbor in Shandong Province. They were received by the director of the Shandong branch of CCPIT. The negotiation proceeded

[3] In 1990, for instance, Japan's average size of per project investment in China was US\$2.1 million. See Kozue Hiraiwa, "Foreign Investment in the PRC, 1990-1991," *China Newsletter*, No. 96, 1992, p.14.

Table 1 Geographical Distribution of South Korean Investment in China (1984-1991)

	1984-1989	1990-1991	Total
Shandong	13	30	43
Liaoning	6	31	37
Heilongjiang	3	17	20
Beijing	5	13	18
Jilin	3	14	17
Guangdong	13	4	17
Tianjin	4	9	13
Others*	7	9	16

Notes: * Others include Hebei(3), Hainan(2) Zhejiang(2), Shanghai(1) and Shanxi(1).

Sources: Jae Ho Chung, "The Political Economy of South Korea-China Bilateralism: Origins, Progress and Prospects," Ilpyong J. Kim and Hong Pyo Lee(eds.), *Korea and China in a New World: Beyond Normalization*(Seoul: The Sejong Institute, 1993) 296.

smoothly, and a provisional contract was signed. The deal was not profitable for the Korean company, but since it was the first deal of its kind with China the company was willing to build the harbor and receive coal in return. Subsequently, however, contacts with the Chinese partners were severed. The official excuse from the Chinese side was that the project had not been included in the Seventh Five-Year Plan. When an executive went back to China in early 1985, he learned unofficially from the Chinese side that the Ministry of Coal had not cooperated with the Ministry of Communications on the deal, and the State Planning Commission(SPC) had to be involved in order to settle the problem. Once the SPC did step in as a coordinating supra-agency, the deal became a focus attention of Ministry of Foreign Affairs (MOFA). Because MOFA worried about the potential negative outcome of the joint venture on the Sino-DPRK relations, MOFA objected strongly to the project and the deal was quietly dropped (Chung 1988: 1043-44).

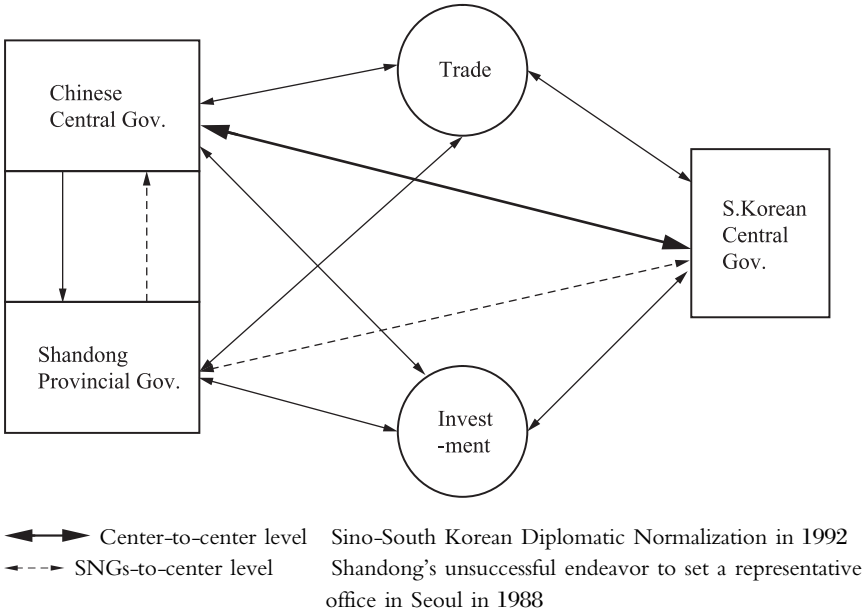
From the discussion above, we can see that trade and investment were the double engines for Shandong to engage in exchanges with South Korea. At the end of 1987, the State Council held a meeting in which a decision was made to designate Shandong as the key-point province in conducting non-governmental economic relations with South Korea(1999: 944). Along with the designation came a package

of preferential policies. The State Council empowered the Shandong authorities to issue on-site visas to South Korean businessmen upon their arrival and approved ferry routes between Weihai and South Korea's Inchon (Qingdao Municipal Archives Office 1995: 19). However, Shandong was hardly satisfied. In 1988, an officer from the Shandong branch of CCPIT visited South Korea and discussed the possibility of opening a representative office of the Shandong branch of CCPIT in Seoul (C. Lee 147). Although he went to South Korea as a non-governmental official, he came under criticism from Beijing upon his return to China. In response to this incident, MOFERT (Ministry of Foreign Economic Relations and Trade) of South Korea and MOFA of China arrived at the following understanding in August 1988: that a non-governmental trade agency is to be established in South Korea. Thus, the issue was brought under the overall consideration of the central government. And later, Shandong was informed that no local department's company had the right to discuss this problem or sign any agreement. Any such agreements signed without authorization had no place of enforcement.^[4] Although it may appear that Shandong overstepped its authority and thus failed to achieve its goals, it undoubtedly challenged the central government's policies toward South Korea and exerted diplomatic pressure on the central government. The above case illustrates adequately how the central government and local governments interacted in helping with the establishment of diplomatic relations between China and South Korea (Fig. 1).

Shandong was eager to seek a wide-ranging exchange with South Korea; and this interest was shown by other provinces as well. The designation of Shandong as the sole key province in dealing with South Korea was resented by other provinces — notably Liaoning and Fujian — which resorted to various measures in order to secure their respective shares in Sino-South Korean economic cooperation. While Shandong was still negotiating with its South Korean partner on establishing its liaison office in South Korea, Liaoning Province was conducting negotiations to establish its own liaison office. Liaoning went so far as to act defiantly toward Shandong and toward the authority of the Chinese central government. Eventually, Liaoning was also

[4] My interviews with the officers of the Shandong branch of CCPIT in Jinan on July 2, 2009.

Fig. 1 The game between the central government and Shandong during Sino-South Korean diplomatic normalization



Note: In this figure, there are three actors (Chinese Central Gov. , Shandong Provincial Gov. , S. Korean Central Gov.) in the game of Sino-South Korean diplomatic normalization. Trade and investment are the two major driving forces in the game. In the center-to-center level, the key event between the Chinese central government and the South Korean central government is the Sino-South Korean diplomatic normalization in 1992. In the SNGs-to-center level, the key event between the Shandong provincial government and the South Korean central government is Shandong's unsuccessful endeavor to set a representative office in Seoul in 1988.

designated as a key province in dealing with South Korea (Chung 1993 : 295). Liaoning's success, however, was not to be repeated by other provinces. Fujian, which hosted one of the largest Sino-South Korean joint ventures with the Daewoo Group in 1987, manifested its discontent over Shandong's designation as the key province for South Korea by signing a second joint venture agreement for manufacturing compressors. The local government made the investment decision without Beijing's prior approval. The Liaoning and Fujian cases well illustrated that it was very difficult for Beijing to keep provincial contacts with South Korea under its close control. This case also showed that negotiation and bargaining with the central government happened not only in one local government, but among several local governments

(Shandong, Liaoning, and Fujian).

Enlarged provincial incentives for foreign economic relations with South Korea have resulted in a variety of problems that required resolution from the central government. The central government has often found itself in subtle and embarrassing situations. On the one hand, Beijing's strategy of "provincial contact only" was to shield itself from North Korea's resentment. Beijing's astute dual strategy, based on the "principle of separating politics and economics" toward the Korean Peninsula, was designed to benefit from economic ties with Seoul and simultaneously maintain stable diplomatic relations with Pyongyang. Furthermore, provinces, as non-sovereign actors in the inter-state relations, could also act as the agent of the central government to conduct "informal diplomacy" (Cheung and Tang 105), particularly with countries with no diplomatic relations or when high-level contacts were suspended. On the other hand, the strategy of "provincial contact only" has often generated undesirable problems for the central government. When the provinces are empowered to carry out decisions concerning trade and direct investment with South Korea, they are actually performing foreign economic policy. The local government's relations with South Korea were a political act as well as an economic act. For both intelligence and security reasons, Beijing has often found it difficult to afford such a diffused relationship with Seoul.

Two instances adequately illustrate Beijing's wariness. First, a Korean Chinese from Liaoning Province was arrested in 1987 for allegedly working for the Korean Central Intelligence Agency. Second, a South Korean businessman based in Hong Kong was denied an entry visa for two years simply because he had briefed the Blue House about a joint venture deal (Chung 1993: 294).

Segal argues that, because of decentralization and internationalization, there is a need to "deconstruct" China's foreign relations — to see the coastal provinces as somewhat independent actors distinct from the central government. Since these provinces have woven themselves into economic interdependence with outside actors, these outside economic partners could exert a "pull" on coastal China, and affect China's policy towards them. For Segal, this is a desirable scenario, in the sense that China would be prevented from making use of its growing economic power to pursue its own agenda (Segal 352). As potential "trouble-

makers,” the provincial governments (Shandong, Beijing, Liaoning, etc.) may become valuable influence channels that the South Korean government could use to influence China's Korean policy. Former Foreign Minister Qian Qi-chen pointed out in his biography that a few years before Sino-South Korean diplomatic normalization, many high-level officials — with the aid of a visa on a separate piece of paper — visited Beijing and some provincial cities privately. They played the part of lobbyists and expressed their wish to contribute to Sino-South Korean diplomatic normalization (Qian 148).

4. Case Analysis: A Sub-provincial Actor — Qingdao's Foreign Affairs with South Korea

Qingdao is a key economic city of Shandong Province and one of the earliest coastal open cities and it enjoys a provincial-level status in economic policy-making.^[5] Designated as a “coastal open city” in 1984, Qingdao has become one of the most economically dynamic cities in China over the course of the reform era. Thanks to its special geographical proximity to South Korea and good deep water harbors, Qingdao attracts many South Korean firms. With the increase of economic exchanges and trade with South Korea, Qingdao went beyond the secret and indirect economic relations and adopted the bold method of sending government officials to visit South Korea. In this way, Qingdao hoped to enlarge its economic cooperation with South Korea.

A breakthrough was made in April 1984, when Liu Ji-de, Chairman of the Qingdao Sub-Council of CCPIT, visited South Korea secretly. He made this visit in the name of president of Huahe International Rent Joint Venture Co., Ltd.^[6] The delegation was the

[5] In April 1984, the Chinese central government decided to further open 14 coastal cities, including Qingdao. Further opening was meant to expand their authority on imports of advanced technologies, increase the volume of foreign exchange, and grant them privileged policies and flexible measures enjoyed by special economic zones. On October 15, 1986, the State Council approved listing Qingdao as a city enjoying economic authorities equal to those at the provincial level.

[6] The Qingdao Sub-Council of CCPIT was a semi-governmental and semi-civil organization. It also used the name of Qingdao Branch of CCOIC to avoid sensitive political problems by acting as a civil organization. Liu Ji-de also acted as the director of Foreign Economic Relations and Trade Commission in March 1988. The above information was from the interview with Liu Ji-de on Oct. 24, 2007 in Qingdao by the present author.

first one seeking expanded bilateral relations in Shandong or even in China, and it paved the way for direct contact between Qingdao's officials and South Korea. The delegation led by Liu Ji-de was greeted by a deputy minister of the Ministry of Trade and Industry (MTI). In the course of visiting the Korea Trade Promotion Corporation (KOTRA), the two parties reached the following oral agreements. (1) The two parties would work together for promoting economic and technological exchange and increasing trade for each other, actively creating institutions for exchanging ideas regularly and improving work methods. (2) The two parties would exchange economic information periodically. (3) The two parties would provide consulting service enabling economic and technological cooperation among enterprises on both sides. (4) Each party should go through entry formalities for the partner's delegation and provide relevant services.^[7] It is worth mentioning that the visit of Liu Ji-de was approved by key officials of the Shandong Provincial Party Committee and the Qingdao Party Committee. This approval indicated the attitude of the Shandong government and the Qingdao municipal government.^[8] Later, Wu Xi-shan, secretary general of the Qingdao municipal government, Yu Zheng-sheng, Mayor of Qingdao, and other officials visited South Korea in quick succession.^[9]

The visit by the Qingdao municipal government officials had a tremendous impact on maintaining close economic exchanges with South Korea. After Liu Ji-de's first visit to South Korea in 1988, Qingdao met 35 groups of commercial and industrial delegations from South Korea and held primary discussions with them on a host of projects. The presidents of 7 out of the top 10 companies in South Korea visited Qingdao for advancing economic ties. Their efforts

[7] The information is from the interview with Liu Ji-de on Oct. 24, 2007 in Qingdao by the present author.

[8] On Feb. 2, 1988, Gao Chang-li, member of the Shandong Provincial Party Standing Committee and secretary-general of Shandong Provincial Party Committee, showed great interest in Liu Ji-de's request to visit South Korea. On the same day, Liu Peng, secretary of the Qingdao Party Committee, permitted Liu Ji-de to visit South Korea on behalf of the Qingdao Party Committee. Interestingly, however, Liu Peng said to Liu Ji-de repeatedly: "you will visit South Korea on behalf of yourself, not the government." The information was from the interview with Liu Ji-de on Oct. 24, 2007 in Qingdao by the present author.

[9] One thing needs pointing out. Wu Xi-shan, secretary general of Qingdao municipal government, visited South Korea in the name of a senior staff member of a Hong Kong corporation while Mayor Yu Zheng-sheng visited South Korea in the name of the Qingdao mayor.

Table 2 Qingdao's Foreign Affairs with South Korea before Sino-South Korean Diplomatic Normalization

Time	Major events
1988. 04. 15-23	A Qingdao delegation headed by Liu Jide visited South Korea secretly
1988. 10	The secretary-general of Qingdao Municipal government, Wu Xishan, visited South Korea
1988. 10. 28	CCOIC, Qingdao Branch and Pusan Chamber of Commerce and Industry signed Cooperation Agreement at Qingdao
1989. 10	Qingdao held an international exposition at Seoul
1991. 04	Mayor of Qingdao, Yu Zheng-sheng, visited South Korea.

Source: Consulate General of the Republic of Korea in Qingdao, *ROK-Shandong Relations*, see(<http://www.qdcon.org.cn/>. Accessed in June 7th, 2011).

initially opened the economic and trade relations with South Korea. [10] In February 1989, Qingdao Sanyang Foods Co. LTD was founded. It was the first approved Sino-South Korean joint venture. Qingdao Top-Tone Electrical Appliance Co. , LTD was the first approved foreign wholly owned investment. Later, Qingdao Hanju Rubber Co. , LTD and Qingdao Chashan Artificial Jewelry Co. , LTD as well as other enterprises were founded. 71 South Korea firms had already been approved for establishment by the time of Sino-South Korean diplomatic normalization (Qi 52-53; Qingdao Municipal Archives Office 172-73).

The reason why the Qingdao municipal government officials dared to visit South Korea frequently before Sino-South Korean diplomatic normalization was their concern for regional development and local interests besides their courage and foresight. The increasing global competition frequently causes economic activities to influence political decisions. Economic outcomes become the core standard for local people to judge the efficiency of their government and can even decide the future of a key political leader and his administration. Thus, local governments, vertically controlled by the central government, shifted their role from that of an agency to that of a representative of local interests. The expansion of exports to South Korea and the increase of investment from that country are both crucial to Qingdao's economic

[10] The information is from the interview with Liu Ji-de on Oct. 24, 2007 in Qingdao by the present author.

development. At the same time, economic development is directly linked to the governance ability of officials and management ability of an administration. Therefore, any administration of Qingdao must place economic relations with South Korea in an important position.

As mayor of Qingdao at the time, Yu Zheng-sheng was in great favor of economic cooperation with South Korea. During his administration in Qingdao, Yu Zheng-sheng was greatly appreciated by Qingdao citizens and the Korean people from commercial and industrial circles for his open-mindedness and pragmatic attitude. He was regarded as a representative of the younger-generation political elite (Chung 1999: 938-43). In March 1990, Yu became the mayor, and in February 1992, he became the secretary of the Qingdao Party Committee. As the top leader of the Qingdao municipal administration, he established an “open-up leading group” for planning the long-term development strategies of Qingdao. One of its strategies was to improve the overall investment environment of Qingdao. In 1991, he vigorously advocated setting up an international direct route from Qingdao to Japan and South Korea in the hope of making it convenient for absorbing investment. One of Yu’s most talked-about accomplishments concerns the airport project. In late 1991, Yu also made efforts to set up direct air routes to Japan and South Korea. Mayor Yu worked hard to improve measures for “soft environments,” making the volume of investment from South Korean enterprises in Qingdao increase greatly.

The dramatic increase in the total number of South Korea-invested firms in Qingdao — three in 1989, 116 in 1992, 409 in 1994, and 1,137 in 1997 — seems to testify in part to the effectiveness of the measures taken to improve the city’s soft environment. Table 3 illustrates the crucial importance of South Korean investment in Qingdao. Within two years following the initiation of its economic co-operation with Shandong in 1988, South Korea became the second largest investor in Qingdao after Hong Kong. In 1992, South Korea’s share in Qingdao’s total foreign direct investment was 18 percent, and by 1994 it had risen to 23 percent. In 1993, the total number of South Korea-invested firms in Qingdao grew to 238 and 80 percent of South Korea-invested enterprises in Shandong were concentrated in Qingdao. In 1994, the total number of South Korea-invested firms in Qingdao was 409, which increased to 658 in 1995, accounting for 34.7 percent of the foreign direct investment

made in the city that year (Chung 1999: 945-48). Since 1995, South Korea has remained as the largest investment country for Qingdao.

Table 3 Foreign Investment in Qingdao by Country and Region (in contractual amount)

Rank	1990	1992	1994	1995	1996
1	Hong Kong	Hong Kong	Hong Kong	S. Korea	S. Korea
2	S. Korea	S. Korea	S. Korea	Hong Kong	Hong Kong
3	U. S. A.	Japan	Singapore	Japan	Taiwan

Sources: Statistical Bureau of Qingdao Municipal Government, ed. , *Qingdao Statistical Yearbook 1991*, Beijing: China Statistics Publishing House, 1991, p. 269; *Qingdao Statistical Yearbook 1992*, China Statistics Publishing House, 1992, p. 278; *Qingdao Statistical Yearbook 1993*, China Statistics Publishing House, 1993, p. 278; *Qingdao Statistical Yearbook 1995*, China Statistics Publishing House, 1995, p. 228; *Qingdao Statistical Yearbook 1996*, 1996, China Statistics Publishing House, p. 233; *Qingdao Statistical Yearbook 1997*, China Statistics Publishing House, 1997, pp. 229, 236.

The long-awaited diplomatic normalization between China and South Korea in August 1992 provided a further boost by increasing the number of large-scale investment projects from South Korea. The political guarantee provided by the diplomatic normalization helped large South Korean conglomerates ease their fear of committing large sums of money in China.^[11] As a result, the average size of South Korean investment in Qingdao rose from US\$0.9 million in 1992 to US\$1.6 million in 1994 (see Table 4).

Table 4 Breakdown of the Size of South Korean Investment in Qingdao

US\$	< 1 million	1-5 million	5-10 million	> 10 million
1988-1992.8	44 (57.1%)	28 (36.8%)	4 (9%)	1 (2.3%)
1992.9-1994.4	136 (64.5%)	60 (28.4%)	8 (3.8%)	7 (3.3%)

Source: Calculated from the CCPIT's list; see also Jae Ho Chung, "A Sub-Provincial Recipe of Coastal Development in China: The Case of Qingdao," *China Quarterly*, No. 160 (December 1999), p. 949.

It can be said that Qingdao's exchanges with South Korea before Sino-South Korea diplomatic normalization were active and rewarding.

[11] In 1993, there were six foreign-invested projects committed to Qingdao whose size exceeded US \$10 million, and four of them came from South Korea. For South Korea's investment in China and the impacts of diplomatic normalization on it, see Jae Ho Chung, "The Political Economy of South Korea-China Bilateralism: Origins, Progress and Prospects," pp. 283, 301.

Firstly, due to the close cooperation of Qingdao and South Korea in economy and trade, many South Korean firms were set up in Qingdao, which provided large numbers of jobs for local people and brought considerable tax revenue and foreign exchange earnings. The increasing close economic ties led to the formation of powerful “interest groups.” Urged by the desire to protect the interests of South Korean firms and those of Qingdao’s local economy, the “interest groups,” in the name of improving the environment of investment, constantly lobby the central departments, mainly the MOFERT. The Qingdao municipal government has also made tremendous lobbying efforts, as have other provinces and cities with close economic ties with South Korea. Their lobbying efforts, coupled with bureaucratic interests and the organizational ethos of bureaucratic politics, influenced the central government’s policies toward South Korea to a great extent.^[12]

Secondly, the visits of Qingdao governmental officials to South Korea also advanced, to some extent, the development of Sino-South Korean relations. Generally speaking, before Sino-South Korea diplomatic normalization, the visits of officials of sub-national governments from one country to the other country appeared to be helpful to unfreeze their cold relations. The visits of Qingdao’s officials to South Korea played the role of unfreezing Sino-South Korean relations. In the name of foreign affairs of local governments, these visits also shielded the central government from Pyongyang’s resentment. The Qingdao government’s “foreign affairs,” loaded with economic and political implications, inevitably influenced the central government, so that it began to actively make policy toward South Korea.

5. Conclusion

Taking Shandong-South Korean relations before Sino-South Korea diplomatic normalization as an example, this article analyzes the role

[12] Different organizational ethos and bureaucratic interests have put MORERT and MOFA at loggerheads. South Korea was naturally perceived by MORERT as a desirable economic partner of China; but considering Pyongyang’s resentment, MOFA had reservations about the economic cooperation between China and South Korea. See Jae Ho Chung, “The Political Economy of South Korea-China Bilateralism: Origins, Progress and Prospects,” pp. 289-93.

played by local governments of China in helping establish diplomatic ties with South Korea. Broadly speaking, local governments (represented here by Shandong Province) pushed the advancement of diplomatic ties with South Korea from the aspect of need, wish, ability, and empowerment. Upon the establishment of diplomatic ties, China's Premier Li Peng said, "When water starts to flow, it will change into a brook. When a brook becomes a river, all rivers will empty into the sea." This is a natural principle. In the relationship between China and South Korea, the brook has changed into a river. Through reinforced substantive cooperation, China and South Korea's relationship appears to be heading toward a bright future (H. Kim 11). The economic cooperation of Shandong and other provinces with South Korea was the "water" referred to by former Premier Li Peng. The accumulated contacts are the months and years that eventually led to the final normalization of diplomatic ties of the two countries.

At the same time, we must realize that in the game of realizing the normalization of diplomatic ties with South Korea, the central government played a decisive role. On the basis of the present and long-term domestic and international situation and national interests, the central government made the decision of establishing diplomatic ties with South Korea. The final decision rested with Deng Xiao-ping (Qian 139-61; S. Kim 382). While the provinces will become more influential in China's political economy, they will still be unable and unwilling to challenge the dominance of the central government in China's foreign affairs (Chen 2007; 266).

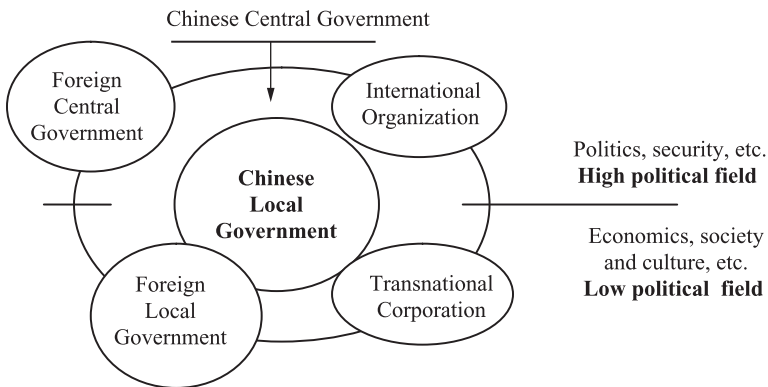
More importantly, through this interesting case, we understand that the local governments of China have been playing a more and more important role in China's overall diplomacy since the Reform and Opening-up. Traditionally, people believe that, for a typical centralized state like China, it is impossible for local governments to play any substantive role in China's national diplomacy because the central government is the core and perhaps the only actor. The role played by China's local governments in the Sino-South Korean diplomatic normalization indicates that local governments could exert certain influences on the central government's foreign policy-making.

Besides, this thesis is substantiated by other cases. In coordination with other members of the Shanghai Cooperation Organization (Russia

and Central Asian countries), Northwestern provinces in China focus on combating the three malevolent forces of terrorists, secessionists, and religious extremists in order to defend border security and enhance solidarity amongst different ethnic groups in Xinjiang Uygur Autonomous Region. Contiguous to Asian countries, Southwestern provinces similarly began to cooperate with them in handling such non-traditional security threats as drug trafficking, smuggling, marine crime, illegal weapon sales and cross-border river water shortages. Close to Japan, South Korea, and Taiwan, Southeastern coastal provinces understandably took the lead as pioneers in expanding external cooperation (Wang 10). Local governments are no longer outsiders and onlookers. They have become important channels and pivots for international exchange. Through fixed and institutional means, local governments have brought local interests to the attention of the central government in making final decisions.

In the central-local governmental process of making multi-fold policies, the reasonable interest requests of local governments need to be heeded while the central authority needs to be upheld. How to accommodate these two aspects is an important challenge facing China's future diplomacy. One feasible way for China's diplomacy is to establish a central government-led win-win diplomatic structure (see Fig. 2).

Fig. 2 Win-win mechanism of China's diplomacy under the leadership of the central government



Source: Chen Zhi-min, *Subnational Governments and Foreign Affairs*, Beijing: Changzheng Publishing House, 2000, p. 172. For the convenience of reading, the author has made some adjustments to this figure.

The central government continues to lead but does not monopolize China's diplomacy in traditional "high" political fields such as politics and security; while local governments are more deeply involved in the process of making diplomatic decisions and reinforcing their presence in international society in "low" political fields such as economics and culture. The central government by and large leaves foreign affairs concerning local interests to the autonomy of local governments, while retaining those concerning crucial national interests. The relocation or perhaps distribution of power can, on the one hand, relieve the central government of some burdens and, on the other hand, promote local governments' initiative. As to issues concerning both local and national interests, the central government helps local governments forward their decisions based on talks and consultations among local governments. In this way, the central government will ensure the rationalization of foreign policy and give full support when local governments carry out their policy (Chen 2000: 145). If, through such agreements, the central government dominates high political fields and delegates "low" political fields to local governments, it would be helpful in strengthening China's multilayered diplomacy in the new century and in achieving the win-win situation in the overall national diplomacy.

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