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Dimensions of Regional Processes in the Asia-Pacific Region

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Introduction

Asia and Pacific's growing importance to the rest of the world is widely acknowledged today. The dynamics of Asian economic development have tremendously impacted global trade relationships and regional cooperation. Thus, it is with great pleasure that we deliver another volume of Research Papers on Asia-Pacific economic issues.

This year we present 19 papers by various authors who examine the Asia-Pacific region from different perspectives. We decided to group them into 3 Chapters:

- Cooperation and trade
- Economy and policy
- Risks & challenges

Papers grouped in the First Chapter describe newly emerging regional trade architecture. You will find there a few analyses of general nature and regional scope (J. Dudziński, A. H. Jankowiak, E. Majchrowska) and some studies on specific trade agreements (A. Klimek writes about Shanghai Free Trade Zone, A. McCaleb and G. Heiduk try to find out what motivates China's cities to establish partner agreements with cities in Asia, B. Michalski analysing U.S.-Republic of Korea Free Trade Agreement, while M. Maciejewski and W. Zysk look for opportunities for Polish exports in the trade agreement between EU and Vietnam).

The Second Chapter is the most diverse one. It is devoted mostly to economic policy issues (including financial sector). S. Bobowski, L. Zyblikiewicz and K. Żukrowska look at the main threads in Asian regionalism. P. Pasierbiak and K. Łopacińska analyse the movements of Chinese capital. M. Dziembała and S. Mazurek deal with the subject of innovation supporting growth and development.

Articles in the Third Chapter are focused on extraordinary events influencing economies and development of the Asia-Pacific region. J. Pera prepared an assessment of risk of APEC countries, based on the country risk classification method and selected indexes of internal stability. A. Kukułka and B. Totleben analyse the impact of natural disasters on gross capital formation in Southeastern Asia. Finally, T. Serwach and M. Grabowski and S. Wyciślak deal with synchronization of business cycles and contagion of crises.

We sincerely hope that all the articles will be of great value to those who want to understand the role of Asia-Pacific economies in the global economy. Through various interests of authors, our volume provides a valuable insight into the problems of this region.

All the papers were submitted for the 8th international scientific conference "Dimensions of Regional Processes in the Asia-Pacific Region" which took place in

November 2015 at Wrocław University of Economics, under the patronage of Polish Ministry of Foreign Affairs, Ministry of Science and Higher Education and the Ministry of Economy.

We appreciate your time and consideration, and we look forward to the submission of your own good work. We also appreciate the time and effort of our peer reviewers. Thank you!

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WHAT MOTIVATES CHINA'S CITIES TO ESTABLISH PARTNER AGREEMENTS WITH CITIES IN ASIA

MOTYWACJE CHIŃSKICH MIAST DO USTANAWIANIA POROZUMIEŃ PARTNERSKICH Z MIASTAMI W AZJI

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Summary: In ancient and medieval times, intensive relations between trading hubs shaped the world economy, mostly resulting from location advantages along trade routes. Some of these relations were based on institutional arrangements which might be considered the predecessors of sister city partnerships. After WWII, these partnerships played an important role in re-establishing people-to-people relations by cultural and educational exchanges. There is evidence that, with the ongoing globalization and urbanization, economic motives gain ground. Of particular interest are Chinese city partnership agreements in Asia, because they often have to balance divergent interests of the Chinese, as well as the partner city's point of view. The paper aims to put this type of sub-national arrangement into the wider context of Chinese interest to strengthen its position in Asia. The paper concludes with recommendations for future theoretical and empirical research.

Keywords: urban policy, international agreements, sister city agreements, China.

Streszczenie: W starożytności i średniowieczu intensywne relacje handlujących ze sobą miast kształtowały światową gospodarkę, co było zazwyczaj wynikiem walorów lokalizacyjnych na szlakach handlowych. Niektóre z tych relacji były oparte o uregulowania instytucjonalne, które można uznać za poprzedników porozumień partnerskich miast (*sister city partnerships*). Po II wojnie światowej porozumienia partnerskie miast odgrywały ważną rolę w odbudowywaniu relacji międzyludzkich poprzez wymianę kulturalną oraz edukacyjną. Istnieją przesłanki wskazujące, że w dobie globalizacji i urbanizacji motywy ekonomiczne porozumień partnerskich miast zyskują na znaczeniu. Na szczególną uwagę zasługują porozumienia partnerskie miast chińskich zawierane w Azji, ponieważ zazwyczaj muszą one balansować rozbieżności pomiędzy interesami swoimi i miast partnerskich. Celem artykułu jest przedstawienie porozumień władz lokalnych w szerszym kontekście chińskich planów wzmocnienia swojej pozycji w Azji.

Słowa kluczowe: polityka miejska, porozumienia międzynarodowe, miasta partnerskie, Chiny.

"It is hard to define exactly what being a sister city means."

[Bell-Sauder, Bredel 2005, p. 2.]

1. Introduction

The development and stabilization of modern states created the basis for the shift of economic observations and theories from local to national and international level. In ancient and medieval times, economics addressed the inter-city trade, trade routes, distances and transportation modes. The two centuries before and after the emergence of the Christian era, which coincides with the rule of the Han Dynasty, long-distance trade on the ancient Silk Road [Beckwith 2009; Elisseff 2000; Mark 2014] connected the major centres of Asian and European civilizations, such as Xi'an (former Chang'an) and Rome.

Cities along this trade route – known as flourishing trade oasis, such as Kashgar in China and Palmyra in Syria – became rich and developed into commercial hubs, where several trade routes crossed. In addition to its function of exchanging goods, the Silk Road also served as a route of communication with the result of cultural and technological learning. According to present knowledge, mutual cooperation agreements with trading posts along and at the Western end of the Silk Road did not exist. Uncodified partnerships might have emerged, firstly built on power, but later replaced by mutual trust.

In the medieval times, in Europe more formal city partnerships emerged under the umbrella of the Hanseatic League. "In the mid-thirteenth century, North German seafaring merchants joined together to form the Hanseatic League as a way to pursue their shared economic interests. Throughout the North Sea and Baltic Sea region, up to 200 towns and cities were the members of the League, as were several large trading houses. For over 400 years, the Hanseatic League played a major role in shaping economies, trade and politics before losing its significance in the mid-seventeenth century" [Saxe 2015].

The original driving force behind this open network of alliances had been the common interest of merchants to buy and sell goods in bulk without boundaries and, therefore, to reduce costs. The first wave of industrialization in the 18th century contributed to a split into political and economic centres. Lack of natural resources motivated political leaders in newly industrializing countries to colonize the resource-rich regions abroad. This strengthened the nation state and led to the emergence of international economy. It is therefore no surprise that at the beginning of the modern economic theories, their founders, such as Adam Smith [1776] and David Ricardo [1817], aimed to explain the advantage of *national* economies in the *international* trade.

The advantages derive from endowment with labour and capital. This allows to neglect locations which are replaced by the economically fuzzy institution, i.e.

nation. The delocalized nation is still the basis for Krugman-type new trade models which emerged in the 1970s [Krugman 1979]. In the last decade, new trade theories turned their focus from market structures and types of trade flows towards industry- and firm-level characteristics [Antràs, Helpman 2004; Melitz 2003]. What is missing, is the link between industries' and/or firms' local embeddedness into bilateral international agreements between cities and bilateral transactions, such as trade and investment or migration.

From this perspective, the following questions arise: Firstly, do these agreements create incentives for the volume, direction and structure of bilateral transactions? Secondly, do intensive bilateral transactions between cities result in institutional arrangements at the city government level? In addition to this questions of causation, the impact on several aspects of urbanization gives room for new research.

The paper aims to touch upon these questions from rather descriptive view and to stimulate deeper empirical and theoretical analysis. The remaining sections are organized as follows: empirical evidence on the dynamics of cross-border transactions between cities, presented in the next section, followed by a short description of the methodology and the set of hypotheses. Section IV paves the way for a more general view on Chinese cities' agreements with cities in Asia. Three Sister City Agreements (SCAs) between Chinese cities and partner cities in Asia are analysed in section V. The conclusion summarizes the cursory investigations, recommends future theoretical and empirical research and draws some very preliminary policy recommendations.

2. City-to-city arrangements, trade and FDI

The increasing complexity of the world economy – countries with different speed and level of development, different catching-up strategies and firms with different competitiveness and internationalization paths – requires approaches which do not regard factor endowment, as per se, as given. The upheaval of a nation's comparative advantage to a competitive advantage allows a more realistic analysis of the cross-border interactions [Porter 1990]. Anyhow, the locational perspective remains untouched. This also holds for the business oriented approaches to foreign direct investment [Dunning 1980], as well as to internationalization of firms. Neither Johanson and Vahlne's Uppsala model [1977], nor business network internationalization process models [Johanson, Vahlne 2009] explicitly pay attention to the localization of firms. But it is only since empirical studies showed the importance of networks in clusters of innovation (e.g. [Saxenian 1994]) that the international dimension of these locations had been highlighted.

In Silicon Valley, the symbiosis of firms' business, their regional environment and a culture of openness proved geographical proximity compatible with the global success. Kowalski noted that “[t]here is a growing number of evidence that cluster structures play an important role in the process of firm's internationalization. This

connected with the new trend in the phenomena of clustering, namely opening to foreign partners and international collaboration in supra-regional and transnational networks" [2014, p. 181]. The latter observation suggests that firms' globalization is not necessarily in conflict with their local embeddedness, but rather strengthens the interactions with clusters abroad [De Martino et al. 2007].

The revival of local space, such as regional clusters, free trade zones or megacities, allows to deepen and to diversify the network of firms' interactions. At the same time, the set of driving forces grows far beyond the well-known factors on the national level. Sub-national micro-environmental and -institutional comparative advantages or disadvantages may push the national advantages or disadvantages into the background. A new strand of theoretical and empirical literature [Henderson, Wang 2005; Chan, Hu 2003; Henderson, Thisse (eds.) 2004] highlights the role of urbanization in the development processes of national economies.

In studies on urbanization in emerging countries, special attention is paid to two probably inter-twined driving forces, namely the government support and the foreign direct investment (FDI). Henderson points to the fact that the "enhanced role of government in the urbanization process has resulted over the years in a corresponding bias, where certain cities and regions are heavily favoured in terms of capital and fiscal allocations, giving favoured regions a cost advantage" [2010, p. 539]. In the case of China, Sahu reports a two-way positive and significant correlation between urbanization and FDI [2013, p. 21].

Similar to earlier studies (e.g. [Sit 2001]), special government policies, aiming to increase the attractiveness of cities for inflows of FDI, are identified as the major driving forces for China's foreign-led urbanization. Examples range from the extreme case of Shenzhen, as a Charter City of Hong Kong, where a city-scale reform zone allowed the emergence of a Start-up City [Romer 2015] to Xiamen, where one of the four first concession zones (Special Economic Zones, SEZs) had been established. In China's post-reform period, cities are still considered a major source of the overall growth, because "the Chinese political-administrative system and policies (...) favour higher-ranked cities in terms of fiscal resources, FDI policy, and transportation facilities" [Sahu 2013, p. 17].

These studies do not aim to link the inflows of FDI into cities with the location of the investing companies. Starting with this gap in the literature, it is argued that the search for the original locations of FDI delivers new knowledge on the micro-spatial level of the global trade and FDI flows. Taking the well-known empirically confirmed hypothesis of positive trade and investment effects of the regional agreements on the country level, as a point of departure, the question, whether sub-national agreements (city-to-city, province-to-province, city-to-province) explain the volume, direction and pattern of economic relations between cities and/or provinces, may be asked.

The empirical part of the study takes the sister city agreements (SCA) as the appropriate institutional framework to analyse the bilateral economic relations on a

sub-national level. Taking the macroeconomic model of a free trade zone as reference, it could be argued that under certain assumptions SCAs create city-to-city integration via trade, FDI and migration, but might negatively affect the economic relations with the unconnected cities. Whether and under which conditions SCAs finally lead to positive or negative urbanization effects, has to be analysed by using adjusted gravity models and tested with a sample of SCAs.

Bell-Sauder and Bredel noted that “it is hard to determine if such exchanges [trade] occur due to the sister city relationship” [2005, p. 6]. Considering that the isolation of the impact of SCAs on the trade and FDI puts a number of methodological challenges on the empirical test of the hypothesis, the chosen examples give a first impression on the economic relevance of these agreements. It should be noted at this early stage that even Sister Cities International – a US non-profit organization representing more than 2000 partnerships in 145 countries – has to admit that “as well as claiming that sister city relationships do not benefit the cities involved, detractors say that the programmes are only used by elected officials to justify expensive overseas travel or to gain political support within a community” [Sister-cities 2015].

Partnership agreements between cities mostly cover a broad range of activities in cultural, educational, economic and informational fields. In his pioneering article, Zelinsky noted that “something new and remarkable, if not necessarily revolutionary, has been going on in the social geography of our late twentieth-century world: the sister-city phenomenon” [1991, p. 1]. Characteristic features of these formal agreements between two cities – usually concluded by local officials – are indefinitely long-distance social interaction, openness for a variety of activities which can include the entire population of the coupled communities, the lack of any kind of a strict formula, reciprocity of benefits and efforts. Following Zelinsky, the term “sister city” is used for transnational agreements between two territorial entities on the sub-national level, such as municipalities, villages, cities, provinces. The term *twinning cities* is a sub-category indicating an urbanization, which is divided by a country border (for example El Paso and Ciudad Juarez; San Diego and Tijuana; Frankfurt/Oder and Słubice). Zelinsky points to the “unwritten rule that the two places should be roughly comparable in size and, more to the point, that they have the wherewithal for becoming compatible partners. Compatibility, in turn, implies some sharing of economic, cultural, ideological, historical, recreational, or other type of concern or perhaps a beneficial complementarity of interest” [1991, p. 4].

3. Methodology

Modelling the effect of SCAs on trade and FDI has to cope with the difficulty of collecting reliable data on the city level. It will obviously be necessary to ensure that the SCA includes the promotion of economic activities. Assuming that time series of trade data on the city level are available, and that the signature of the agreement

guarantees sufficient long time series before and after the signature, gravity models could be applied to estimate the effect of the agreement on inter-sister city trade. It is possible to use a variety of regression models for panel data analysis. Then, one could test whether SCAs cause structural break in bilateral trade and FDI flows series.

By using a gravity model, the starting point is the hypothesis that trade flows between cities are reliant on the property of the city. This leads to the following hypothesis:

1. Trade flows (in and out of the city) related to the size of the city:

Hypothesis 1a: Trade flows are positively correlated with the size of the city.

Hypothesis 1b: *Ex* and *Im* are symmetric when city size correlation is high.

2. Trade flows related to the geographical distance between cities:

Hypothesis 2: Trade flows are negatively correlated with geographical distance.

3. Trade related to the cultural distance (measured by the share of population with ethnic identity):

Hypothesis 3: Trade flows are negatively correlated with cultural distance.

4. Trade flows related to institutionalized city-to-city relations:

Hypothesis 4a: Trade depends on the existence of SCAs.

Hypothesis 4b: A high level of overall activities, a long period of existence, a similar status and location environment, all are additional factors which determine the trade flows.

The gravity model may be expressed by the following function:

$$I_{ij} = k P_i P_j / d_{ij}^a inst_{ij},$$

where: I_{ij} is the interaction (trade, FDI) between the partner cities i and j ; P_i, P_j is the size of the population in i and j ; d_{ij} is the distance between i and j ; k is a scalar constant which allows to differentiate between the relative volume of the given form of interaction; a expresses special features of the interaction which are related to the distance (e.g. cultural distance usually grows with geographical distance); $inst_{ij}$ is the SCA as an institutional arrangement which creates incentives for bilateral trade and FDI flows.

4. Chinese SCAs in Asia: a first view

Applying Zelinsky's [1991] characterization and criteria of SCAs to China, it does not surprise that a large number of SCAs between cities in China and other Asian countries had been signed in the 1990s. This suggests that they are part of China's gradual opening-up policy. Under the leadership of the CCP which encompasses all territorial entities, Chinese cities might have been an integral and even strategic part of the central governments opening-up policy. This is especially obvious with regard to Beijing's agreements with other capitals of Asian countries. The SCAs with Bangkok, Hanoi, Islamabad, Jakarta, Seoul were signed in the 1990s. Politically

sensitive relations with India and The Philippines might have delayed SCAs with Manila (2005) and New Delhi (2013). The early SCA with Tokyo (1979) could be explained by the political will to make a mark on a relatively low level which offers a way to normalize the distressed relations between the two countries.

SCAs, as an instrument that supports national reconciliation efforts, seem to be the case for Beijing-New Delhi, Chengdu-Bengaluru and Kunming-Kolkata SCAs, all of which had been signed during the visit of the Indian Prime Minister to Beijing in October 2013. This does not contradict the fact that the nodal agency for establishing sister city links is a non-governmental agency. The China International Friendship Cities Association, as a sub-organization of the Chinese People's Association for Friendship with Foreign Countries is serving as a bridge and providing consultation for as well as coordinating and overseeing Chinese cities' (including provinces, autonomous regions, municipalities) activities with sister cities (including provinces, states, counties, regions) [CPAFFC 2015]. It can be assumed that the central government grants the final approval of the SCAs.

A more natural motivation of Chinese SCAs in Asia is the cultural proximity to Asian countries, with a considerable share of ethnic Chinese population. Approximately 35 million people of Chinese origin live in ASEAN countries, Korea and Japan. It is well-known that Chinese migrants from provinces or cities tend to cluster abroad due to the importance of personal networks which function even over long distances. The language serves as a relatively reliable identifier for the local origin of the Chinese communities abroad. This offers a bottom-up approach to SCAs between the Chinese cities and Asian cities with large Chinese kindred diasporas.

A third motivation for Chinese SCAs in Asia refers to their role as general, long-term framework for economic activities. As Rajan [2013] points out, the SCA between Bengaluru and Chengdu underpins their complementarity in the ICT industry with an official signal. The former city is India's IT hub and the latter has emerged as China's electronics manufacturing centre. The Kalkota-Kunming SCA can be linked to China's central government initiative to establish a Bangladesh-China-India-Myanmar (BCIM) Economic corridor.

There is evidence that since China's accession to the WTO, the preferred region to extend the network of SCAs in no more Asia. In a recent study, Kaltenbrunner and others found that on the one hand "sister city relationships reflect certain predilections in and between different cultural clusters and lead to (...) network structures comparable to other types of small-world social networks", but on the other hand "geographical distance has only a negligible influence when a city selects a sister city" [Kaltenbrunner et al. 2014, p. 155].

5. Beijing, Tianjin and Shanghai's sister city agreements in Asia

Based on the China International Friendship Cities Association (CIFCA) website, Beijing city established sister city (*youhao chengshi*) relations in Asia with 10 cities, Tianjin with 7 and Shanghai with 12. By this number, Shanghai seems to confirm its

strong international orientation. In general, these sub-national governments seem to eagerly seek to develop sister city platforms to promote their local economies based on the guidelines of CIFCA of “friendship, mutual benefits and real results” [Chen et al. 2010, p. 348].

Beijing – Vientiane, Laos. The two cities established sister city relations only in 2015. Apart from the typical areas of cooperation, the exchange of experience in Party building and Vientiane's integration into China's *One Way One Road* strategy, were emphasized [Beijing Ribao 2015]. The mayor of Vientiane said during the signing ceremony that “*One Way One Road* strategy proposed by China [was] very creative, [and it] will benefit China and neighbouring countries, but also will promote economic integration in Asia” [Xinhua Net News 2015]. As an example, he mentioned the railway project that would connect China, Laos and Thailand.

Tianjin – East Java, Indonesia. Tianjin established sister city cooperation with East Java in 2012. Two years later, both sides established official exchange centres to promote cooperation. East Java is a major industrial centre in Indonesia, possesses a port and, more importantly, is an important node in China's Maritime Silk Road [Beifang Wang 2014]. The two sides focus on cooperation in the fields of environmental protection, food production, deep-sea fishing, aquaculture, inter-school exchange.

Tianjin – Yokkaichi, Japan. The cities formed sister-city agreement in 1980, as sharing a common characteristic of port cities. The cooperation comprises: economic trade, environmental protection, culture, sports, education, health, social welfare, urban and harbour construction and youth exchange [FAO TMPG 2015]. Currently their relationship seems to focus on the issue of environmental protection. Yokkaichi being the manufacturing centre (automotive, textiles, chemicals, electronic parts) used to use oil for energy production that resulted in high levels of sulphur in the air that causes asthma, called Yokkaichi asthma. Scientists cooperate to transfer some of Yokkaichi experiences to Tianjin, where air pollution is also very severe [Oka, Fan 2001].

Shanghai – Chiangmai, Thailand. The two cities signed SCA in 2000, with the goal of developing cooperation in the areas of: technology, trade, culture, tourism, youth exchange. The relations seem to centre around the culture, i.e. Chiangmai organized Longan Festival in Shanghai, Shanghai's invitation of Chiangmai representation to participate in the Floral Exhibition in Shanghai. The two cities also maintain religious exchange, such as organizing “Twin Cities' Holy Buddha” ceremony organized in Shanghai's Longhua Temple in 2013.

6. Conclusion

Chinese cities have been actively developing their sister-city partnerships (*youhao chengshi*), which grew from 1724 [NALAS 2010] in 2010 to 2156 [China Daily 2014] in 2014. According to the President of the Chinese People's Association for

Friendship with Foreign Countries, sister city platforms should serve to enhance city-level cooperation in the areas of bilateral and multilateral politics, economy and trade, science and technology, culture and education [Xinhua Net News 2013]. The analysis of the influence of SCA on trade and investment is hindered by the lack of data on trade, FDI and migration between sister cities. In addition, there is a lack of a theoretical framework to analyse the economic impact of SCAs. There are some similarities to free trade areas. Thus, the point of departure for quantitative analysis could be the gravity model. The policy recommendation would be to specialize SCAs according to main complementarities, e.g. culturally motivated SCAs, economically motivated SCAs, politically SCAs. The result would allow to overcome the triviality and arbitrariness of SCAs.

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