

Introduction

The purpose of this book is, as the title states, to comprehensively recognize transition, regional development and globalization. Regions and countries, however, on which we have focused our attention in this book are rather limited. They are China and Central Europe. In some chapters, we have concentrated on more limited regions and countries, which are the Yangtze River Delta region in China and, Poland and Hungary in Central Europe.

The reason we focused on the Yangtze River Delta region in China is due to its characteristic development patterns such as Jiangsu province, which has a foreign-owned enterprise led development pattern on the one hand, while Zhejiang province has a private-owned enterprise led development on the other. Shanghai, which is the central municipality of the Yangtze River Delta, can be considered as situated between the two provinces. Recently, we can recognize some indications of differentiation within Zhejiang province. Needless to say, China has been, as a whole, a transition economy which has been classified as a gradual way of reform and as a growth-oriented reform. On the contrary, with regard to Poland and Hungary in Central Europe, the former transition has been said as a radical way and the latter as a gradual way. Furthermore, Poland has taken the transition classified as systemic reform-oriented. Further in Poland, their way of transition seemed to be a private-owned enterprise led pattern (not a foreign-owned enterprise led one) at their initial stage of transition. Meanwhile, Hungary has employed a foreign-owned enterprise led development from their initial stage. As far as Hungary is concerned, it started the reform in 1956 (much earlier than Poland). It indicates that its transition should not be depicted as a reform of the economic system, but a growth-oriented reform which means a “soft landing” of the systemic change.

The respective characteristics in transition and development of respective regions and countries could be recognized. The aim of this book is to present reasonable analytical frameworks and reasonable viewpoints to clarify respective characteristics. Each regional development could be improved by taking into consideration the regional integration.

The above-mentioned countries such as Poland and Hungary had tried to employ several policies on transition and development whose main goal was without any doubt to become members of the EU. Their affiliation with EU has significant effects on economic development in Poland and Hungary. China has also had closer relations with East Asian countries, which has been often called as “functional integration.” At the same time, in China, relationships between the central government and local governments have been crucial in considering most issues in China. As a matter of fact, China’s local governments have grouped for appropriate cooperation with local governments of other countries like Japan. For example, cooperation at the municipal level such as that between Shanghai and Osaka has become more important than before.

As mentioned in this book, the above-stated cooperation cannot be recognized correctly without the USA, because globalization has generally been coming from Americanization. Post-war progress of the EU has been necessary for it to be recognized in association with the USA, and the way towards East Asian integration cannot be separated from the US strategy. We also think that the current movement towards regional integration particularly since the beginning of the 1990s might be interpreted as the way towards breaking away from path dependence. It is undoubtedly debatable, but we need to correctly understand the complex connection between globalization and regional integration tendency.

In this Introduction, we have a short overview of each chapter, and the relationships among respective chapters. Part I is the analysis of transition, which consists of three chapters and contributes to clear recognition of the details and characteristics of systemic transition. The aim of Chapter 1 is to analyze determinants of regional disparities (not in questioning whether or not regional

disparities would be expanded) in China from rather long-term points of view.

As well-known, socialist China was founded in 1949, and after that its economy was developed based on the state-owned heavy industry sector in a centrally-planned system. The system prevailed for 30 years until Deng Xiaoping started the reform and open door policy in 1978.

After 1978, along with the market-oriented reforms, coastal open strategy was implemented in the 1980s, which led to certain success. However, the development strategy in the 1980s was limited to attracting foreign capital and to encouraging private-owned enterprises, and this strategy delayed China's reforms from the full-scale reform of state-owned enterprises. In addition, significant disparity between coastal and inland area had been brought about, and inside the Eastern coastal region, regional disparity among the regions was experienced. Non-state-owned sector regions like Guangdong model, Jiangzhe model, and Wenzhou model region enjoyed the economic expansion while state-owned sector regions like Shanghai suffered from disadvantages both in a systemic sense and in a political sense, which led to regional stagnation.

It might be indispensable that adjusting the disparity between coastal and inland, and among coastal regions, is necessary in terms of economic development both in a systemic sense and in a political sense.

We could recognize the facts in China until the middle of the 1990s as follows:

- (1) Per capita GDP of the (then) three municipalities under direct control by the central government, i.e. Shanghai, Beijing and Tianjin, constantly occupy top positions.
- (2) By breaking down the respective province and city, it is clearly shown that, with regard to the two provinces of Heilongjiang and Liaoning, which are the traditional industrial areas located in the North Eastern region, their per capita GDP started to decline at the end of the 1980s. In the 1990s, their positions dropped from the top five, whose ranks were replaced by Zhejiang and Guangdong provinces.

- (3) The bottom five positions have been usually occupied by provinces in the Western region.

Based on the facts mentioned above, we could recognize that, since the 1980s, the Eastern region of China which has enjoyed the returns of a most developed economy, had a variety of disparities within. We could not help mentioning that each sub-region has experienced its own disparity in accordance with its own economic mechanism. Why has such disparity been brought about? In order to analyze reasons behind the disparities, we investigated their strategies for regional development and regional characteristics.

With the reform and open door policy after the 1980s, disparities between traditional heavy industry regions led by state-owned sector in Shanghai and North East (Liaoning, Jilin, Heilongjiang) and open economic regions led by non-state-owned sector in South China (Guangdong, Fujian) and Jiangzhe (Jiangsu, Zhejiang) have become outstanding.

What were the main reasons? With regard to the composition of the industrial sector, the latter of the above had a higher share of light industries while the former had a higher share of heavy industries. With regard to the industrial organization, the former of the above had a higher share of state-owned sectors and the latter had non-state-owned sectors. As far as economic reform process towards market-oriented system is concerned, it is easier for regions in which more market-oriented industries and industrial structures exist to introduce them. Those disparities have seemed to be closely connected with regional economic growth rates.

In other words, basic reasons for economic disparity in the 1990s came from the difference of the speed towards market-oriented system. It also indicates the results of the reform process, because China's gradual reform in the 1980s had chosen regional priority policy.

To overcome such problems in the 1990s, China employed the omnidirectional reform and open door strategy. We could thus recognize that China seriously grappled with expansion of development regions, establishment of market-oriented systems, and improved efficiency state-owned enterprises.

The purpose of Chapter 2 is to investigate economic reforms and growth in Japan after World War II, while taking into consideration the economic reforms of postsocialist countries, focusing our attention on Polish economic reforms in the 1990s.

Differences in both domestic and international environments between postwar Japan and Poland in the 1990s were quite enormous. We recognize that application of postwar Japan's experiences to the post-socialist Polish economic reforms was rather limited. Thus, in Chapter 2, our purpose is not to exhaustively examine the economic reform process, but rather is limited to focusing on a few essential factors in postwar Japan's economic success, and comparing these with the Polish method of economic reform.

There are some explanations about postwar Japan's low value of marginal capital coefficient. With regard to the 1950–1960 period, crucial factors are considered to be: (1) labor intensive industries had a major share of overall industries and (2) postwar labor conversion from the military sector and excess labor in rural areas made labor price relatively cheaper.

Private saving should be recognized as the main source of funding. The high propensity to save led to postwar Japan's high rate of economic growth. Plausible explanation of Japan's higher rate of private saving to GNP than in other industrialized countries, if focusing on the period until 1960, was undoubtedly the very high propensity to save by the unincorporated business sector. Although the exact figure of their propensity to save varies from different estimates, the rough figure shows that, in 1955 for example, the ratio of savings in the unincorporated business sector was 25 percent of before tax income (agricultural sector's ratio was ten percent and employee sector's was eight percent).

It is not easy to simply explain the unincorporated business sector's high propensity to save, but we can undoubtedly point to a few major reasons. Actually, about 38 percent of the unincorporated business sector's saving was accumulated as equipment investment for their own businesses. Also, as the ratio of their transient income to overall income was higher than that for employees, they seemed to save money for precautionary purposes.

We can conclude that, from the various characteristics of postwar Japan's economic growth in 1950–1960, the following three are indicated as important factors, namely (1) competitive market structure, (2) high propensity to save by the unincorporated business sector, and (3) more equal distribution of assets and income in postwar Japan.

With regard to postwar Japan's economic reform, we can say the following: (1) because of the drastic systemic reforms, income and assets distribution became more equal and propensity to save by the unincorporated business sector became high. (2) Regarding the postwar Japanese industrial policy, although it is difficult to provide an overall evaluation, it is not easy to assert that industrial policy had a major impact on the industrial development of postwar Japan. A crucial reason for postwar Japan's industrial expansion is considered to be the keen competition among domestic producers.

Regarding Poland, we recognize that in the process of the Polish shock therapy, due to price liberalization under a monopolistic market structure, real wages have decreased and income distribution has adversely shifted. As a result, aggregate demand has decreased and the Polish economy has been in a deep recession.

We suppose that it is not risky to insist that the story roughly sketched in Chapter 2 is what happened in Poland in the beginning of the 1990s. To date, the economic performance brought about through the shock therapy in Poland seems to be just the opposite from the case of postwar Japan. Competitive market structure and more equal income distribution are considered to be basic factors for postwar Japan's economic growth, and the remarkable difference between postwar Japan and the Polish performance in 1990–1991.

Therefore, in comparing postwar Japan's economic reforms and economic growth with Polish economic performance in the beginning of the 1990s, the differences in (1) market structure and (2) income distribution are remarkable. We suppose that in postwar Japan, because of a competitive market structure and more equal income distribution, the domestic market expanded and the propensity to save became high. On the contrary, we recognize that in Poland in the 1990s, a market structure which was monopolistic, income distribution which was more unequal and the domestic market decreased.

From the experience of postwar Japan, crucial factors for successful economic reforms in Poland seemed to be: (1) establishing many small and medium sized private enterprises with entrepreneurship, (2) making the market structure competitive, and (3) making propensity to save and investment higher through more equal income and assets distribution.

In Chapter 3, we focused our attention on industries in Shanghai in the 1990s in order to investigate its development tasks and policy measures. In China regions are often classified as Eastern, Central, and Western, or coastal and inlands. As a matter of fact, however in China, such classification has never indicated the reality, because there have been earthshaking changes within each region. It can be said that newly growing cores have appeared through their competition.

The deep rooted reasons for the growth for the Guangdong and Jiangzhe model and of relative stagnation of Shanghai, etc., are pointed out as follows.

In China, in the 1980s, state-owned enterprises reform was in the beginning stage and was never in full scale. In place of full scale reform, Chinese government used such measures as Special Economic Zones and Special Development Zones, for foreign-owned enterprises and private enterprises to actively do business. The government measures have given rise to the Guangdong Model led by foreign capital and the Jiangzhe Model led by TVEs.

In traditional Chinese economy, many state-owned enterprises have been crucial players. It can be said that, for nationwide balanced growth (through giving a chance to recover for state-owned industrial bases like Shanghai, North East and inlands), full scale reform of state-owned enterprises has been indispensable. In order to solve such a task, the Shanghai model was created in the 1990s.

As a result of coastal open strategy, in such regions as South China, Zhejiang province, Jiangsu province, etc., the gap with Shanghai which had fallen behind the wave for market-oriented system was closing. As a matter of fact, Shanghai was behind the leading regions of establishment of city infrastructure like road, housing, electric power, water supply, etc. Shanghai in the 1980s was thus in a serious situation to be below the national average in industrial growth rate.

Since the 1990s, due to geographical advantage, historical significance, etc., Shanghai has been receiving increasing attention. In Pudong area, a development strategy for Shanghai was devised. In the Yangtze River Delta and provinces in Yangtze River valley, it was stated that “Shanghai should be a core municipality for international economy, international trade and international finance, by which the Yangtze River Delta and whole region of the Yangtze River valley will have a new development.” Recently, in addition to the above, another goal which is to make it into an international distribution center has been included.

Since the 21st century, Shanghai has been confronted with two serious tasks. First, in its move towards the international municipality, taking into consideration the fact that big cities all over the world have had the tertiary sectors centered industrial structure, Shanghai had established its city function as “the center of international economy, trade and finance” with the development strategy in industrial structure to be “3, 2, 1.” Through the 1990s, however, industrial development in Shanghai was especially remarkable and contributed to GDP growth more than other sectors, such as the tertiary sector which was damaged by the slump of the stock market. Should we recognize the gap between the target and reality?

The second task is as follows. In the Yangtze River Delta, we had in the 1980s the Jiangzhe model and in the 1990s the Shanghai model which had different characteristics. Since the second half of the 1990s, we have recognized that the opportunity in which the comprehensive plan of the above two model regions has arrived. Such regional integrations as in the Yangtze River Delta and as in the Pearl River Delta have recently received attention in China.

Economic relations between Shanghai and cities around it have particularly attracted considerable attention. The second task is how a vertical network can be built, in which Shanghai will occupy the peak, in order for the whole region to develop by reducing losses like redundant construction.

The above first task enquires which relations should be between industrial structure and city function in the process towards an international municipality. The second enquires how the core municipality can keep the position.

The two tasks (in Chapter 2) Shanghai has faced can be summarized as in which way is Shanghai able to grow towards an international municipality. They basically depend on industrialization and structural advancement of municipalities.

As with the strategic goals, whole industries in Shanghai have thus become targets for economic reforms. Key industries and industrial policies for Shanghai to implement in the 1990s were expressed as “Shanghai New Industrial Upland Building” (building project of more advanced industry base than around area). This can be classified as reforming and adjusting “traditional industry,” and choosing and promoting the “key industry for Shanghai” (of leading industry based upon heavy industry), “Shanghai High-Tech industry” and “urban type industry for Shanghai.”

Finally in Chapter 3, we show the following to be important:

- (1) First is about the main policy measures for the industrial development in Shanghai. The advantages and disadvantages of the “development area” need to be studied.
- (2) Second is about the relations between the secondary sectors and the tertiary sectors. We think that the “organic harmony” is the key towards industrial development. The proposal we make there is also a reply to the first task mentioned above, which is a “way to adjust the secondary industry in the direction towards an international municipality.”
- (3) Third is on the importance of the relations between Shanghai (China) and the close areas of foreign countries like Chugoku District (Japan). The Western part of Japan has had close relations with the Chinese continent in terms of human, physical, economic and cultural aspect, because of their geographic reason. In postwar Japan, much attention was paid to Tokyo, which might be related to the declining and closing economy and society in the Chinese continent. China had revitalization after the reform and open door policy started, which might surely be a good opportunity for the Western part of Japan to develop. We have some suggestions in Chapter 3 on the planning strategies.

In Part II, we focus on international aspects of transition economies particularly risks and inward foreign direct investment (FDI) activities and, in connection with it, development models.

Chapter 4 is to examine the transition in Central Europe (CE) with greater importance attached to inward FDI of Japan in their countries.

The internationalization of multinational enterprises (MNCs) in the context of Central Europe (CE) has been intensifying since the beginning of transition in the region from central planning to market led in 1989. Since transition started, one of the most important modes of penetrating the CE market has been foreign direct investment (FDI). The supply of FDI in CE has been mainly provided by Western European MNCs, with Germany being the major player, followed by MNCs from the USA. The operations of the MNCs already operating in CE through an investment mode of market entry would seem to question the Uppsala stages internationalization model (suggesting processes of gradual and incremental international growth). The actions of MNCs that moved earlier on into CE can be explained using the network model of internationalization only for a limited number of cases. The 'first mover' behavior of foreign MNCs can be better accounted for using the transaction cost analysis model of the internationalization process as emphasizing among other factors, those of opportunism and asset specificity.

All existing internationalization models refer to environments where change is characterized as slow, gradual, and with high level of predictability. CE markets are generally perceived as turbulent with quick and sometimes unpredictable environmental changes. Hence, investments in CE markets involve the assumption of risk that sometimes is difficult to estimate. It is generally higher than in relatively more stable and predictable markets.

The international recognition of Japanese MNCs can be traced back to the early 1960s. At that time, they were predominantly involved in internationalization through exporting. In the majority of cases, exporting referred to transportation and electronic equipment. The use of the export mode of market entry intensified in the 1970s. Production activities, centralized in Japan, spread worldwide through

FDI in the 1970s and continued throughout the 1980s and 1990s. According to the official statistics, Japan was the fourth largest world investor in 1994 and 1995 with FDI of US\$18.1 billion and US\$22.5 billion respectively.

Despite the increase of FDI in absolute figures, Japanese MNCs could not keep the pace with the world's largest investing countries. Japan dropped to sixth place in the world ranking in 1996 and 1997 with FDI of US\$23.4 billion and US\$26.1 billion respectively. In 1998 there was a decrease in Japanese FDI by 9.8 percent compared with its level in 1997.

Japanese investment has shown a strong tendency towards preferential allocation. From being a negligible investor in the USA in the 1960s, by the late 1980s Japan became the second largest investor there, with more than 20 percent share of all cumulative FDI in the country. Japan is also an indispensable leading provider of FDI for the Asian countries.

Japanese MNCs did not rush to take advantage of the investment opportunities in CE. Apart from some incidental acquisitions and greenfield investments in the period 1989–1997, Japanese MNCs did not engage in substantial FDI activities in CE. According to JETRO statistics in the period 1990–1995, FDI inflow from Japan into CE, including the Commonwealth of Independent States, was US\$763 million, whereas in the countries of Taiwan, Thailand and Singapore the FDI inflow from Japan for the same period was more than six times greater. Initially, instead of investing in CE, some Japanese MNCs, for example Nissan, had given a strategic priority to creating extensive sales and distribution networks across the region, expecting those to be instrumental in gaining large shares in the CE markets.

In the first years of transition, this strategy proved successful providing a 25–35 percent annual increase of Japanese exports to CE on a year-on-year basis. Since 1992, the export strategy has proved unsuccessful across the region. All the same, Japanese MNCs have demonstrated hesitant behavior in engaging themselves in substantial FDI activities in CE. In this respect, Japanese MNCs have been more risk-averse than many of their Western European and North American rivals. Perceived uncertainties in the CE region and

substantial psychic distance between CE and Japan may account for this behavior. Meanwhile, Western Europe was very much in the focus of Japanese MNCs during the 1990s, assuming that CE can be left for future consideration.

Before the start of the transition in CE in the late 1980s, Japan had good economic and business relationships with the countries of the region. For instance, by August 1989, Japan had 19 joint ventures in the Russian Federation as a part of the former Soviet Union.

In the 1970s, intergovernmental agreements on economic, industrial, scientific and technological cooperation were reached between Japan and most of the CE countries. Throughout the pre-transition period, some of the Japanese MNCs participating in trade and investment activities in CE were Ataka & Co., Itochu Co., Hitachi, Honda Motor, Kanebo, Matsushita Eclectic Industrial, Mitsubishi, Mitsui, Nissan Motor, NEC, Nissho-Iwai, Sony, Sumitomo Co., and Toyota Motor.

Economic cooperation between Japan and CE started in the 1960s. In the 1970s, many licensing agreements were concluded between Japanese MNCs and CE governments for providing mostly technology, patents, and technical know-how from Japan to CE countries and from some CE countries to Japan. The most active countries in the process were Bulgaria, former Czechoslovakia, former German Democratic Republic, Hungary, Poland, and former Yugoslavia. In the 1980s, many international joint ventures were created between Japanese MNCs and various CE governments. For example, Japan was the most important international joint venture partner of the Bulgarian government outside the Soviet Bloc member states.

Thus, we can conclude of Chapter 4 of this book as follows. Japanese FDI in CE has been disproportionately small in comparison to the size and significance of the Japanese economy, and the participation of Japan in the world FDI outflow. The overall FDI inflow from Japan into CE has been estimated to be US\$2.9 billion at the end of year 2002. This amount is more than 17 times less than the German investments in the region for the same period and more than 15 times less than the US investment. Japanese FDI in CE in the period 1990–2001 represents a mere 0.75 percent of the total FDI

inflow in the region. This may be due to the low level of interest shown in the early years of transition by Japanese MNCs for undertaking investment mode of market entry in the CE region. At a later stage, the Japanese have become very cautious, hesitant, and risk averse with regard to investment, as the Japanese perceive those market economies as uncertain and volatile.

The CE economies where Japanese MNCs have invested can be divided into two groups. The first group comprises the Czech Republic, Hungary, and Poland. These three countries have attracted US\$1.9 billion in Japanese investments by the end of 1999. They have been perceived as less risky and more promising because of their inclusion in the first wave of countries that join the EU in May 2004. While the Czech Republic and Hungary have attracted several large Japanese investments in the early years of transition, Poland lagged somewhat behind. This was due to the negative early investment experience of Daihatsu and Asahi Glass corporations. The more recent successful large investments in Poland undertaken by Isuzu and Toyota seem to have changed the negative trend.

Japanese investments in greenfield ventures strongly prevail in the three countries. While in both the Czech Republic and Hungary Japanese FDI has resulted mostly in the creation of wholly owned subsidiaries, in Poland joint ventures have been the most common form of investment.

The second group of countries consists of Bulgaria, Romania, and Slovakia. Investments in these countries have been perceived as riskier. As a rule, Japanese MNCs have invested in the creation of sales representative offices in the three countries. Incidental investments have been made in production, for example, in the wine industry in Bulgaria, color television sets production in Romania, and in the electronic sector in Slovakia.

Post-transition Japanese investments in CE have been undertaken mostly on the basis of previous relationships between Japan and respective CE countries in the pre-transition period. While the Czech Republic and Hungary have been benefiting from the good pre-transition relationships between each of them and Japan, the favorable previous development of relationships between Bulgaria and Japan

has been largely damaged in the post-transition period. This may be explained with the more stable environment and better progress towards transition to market orientation of the economies in the Czech Republic and Hungary than in Bulgaria, as well as the pitfalls in the early reform of the banking sector in Bulgaria.

In the last few years, there has been a clear trend of gradual increase in the amount of Japanese FDI in CE. They show a high degree of gravitation towards the Czech Republic, Hungary and Poland. It can be suggested that the major drive behind this fact is the accession of the three countries to the EU since a strategic priority of Japanese companies has been to ensure a significant business presence in the single market of the EU.

The investments of Japanese MNCs in the manufacturing sectors in CE have been vertically integrated with other Japanese businesses. A good example is the automobile industry where vertical integration has been achieved within and across national borders inside and outside the CE region.

Japanese investments in other parts of the world have been far more substantial than in CE. Japan is among the world's largest investors. The industrial and technological capabilities of Japanese companies have been renowned all over the world. Their experience in know-how development and adoption, and productivity improvements can be a major source for revitalizing the industrial sectors of the CE countries. The Japanese companies need to enhance their understanding of the CE business environment and be offered support in establishing reliable contacts with CE institutions and businesses. CE governmental and non-governmental institutions could play a major part in it. In addition, CE governments can learn from each other's experience in attracting Japanese investors to their specific country contexts. The long term commitment and decisive investment of Japanese businesses into CE can send an encouraging signal to CE governments and businesses for mutually beneficial investments. The Japanese companies should focus on developing a regional, CE, investment strategy for market penetration and development, rather than considering the CE mostly as a springboard to EU markets and a low cost production base.

Chapter 5 is about the topics on Chinese development model attaching greater importance to the Yangtze River Delta area in comparison with European transition economies, because so far we have never had analyses on transition and development in China particularly in comparison with Central Europe, which undoubtedly has led to insufficient assertions upon its features and its way towards transition in China. Most standardized point of view we now have indicates that China has been attempting its gradual transition from a centrally-planned to market-oriented system, even if China has never displayed systemic change in formal sense (meaning from socialist system to capitalist system). Also, the standardized view tells us that China has been successful in its transition. In Poland, they have recognized it as being reformed in a radical way towards a market-oriented system (Poland has transformed from a socialist to a capitalist system), and generally speaking the Polish transition has been evaluated as successful in Western countries, although this might be a little different from domestic evaluation.

Unless we are very specific about a problem, arguing whether a reform is “radical” or not does not seem to be so meaningful. A more important way of approaching it is looking at what policy goals a transition economy has. We should also ask what benefits and what costs the transition economy would have in completing the policy goals, and if the policy has been appropriate or not. We think it is necessary to investigate reforms from such viewpoints.

Undoubtedly, it is rather hard to recognize transition in China correctly. However, we think it is possible to indicate several crucial points at issue. The Chinese way of gradual reform has been also classified as growth-oriented (pointed out by, for example, Pomfret (1997), and also mentioned by Morita and Bozyk (1997), and Morita (2004)).

Also as indicated by, for example, Sachs and Woo (1994) and Balcerowicz (1995), the Chinese transition depends on its characteristic and initial conditions. Actually before reformation, China had a loose social structure and it was covered by extensive agriculture. In addition to the above, it is huge in area and has remarkable variety. Under such circumstances, going ahead with

liberalization and democratization at a stroke would neither be possible nor wise.

What we should acknowledge is the importance of the existence of Deng Xiaoping, who was a prominent strategist who knew all important matters about the situation at home as well as abroad, and was called the chief designer for reform and open door policy in China.

Various factors would be necessary in order to accept such a strategy and design, and the lead to growth. In Chapter 5, we have attempted to extract a key factor by observing interesting developing models in the Yangtze River Delta region, which are Zhejiang province led by private-owned enterprises and Jiangsu province led by inward FDI.

In particular, the four cities of Zhejiang province which are Hangzhou, Ningbo, Wenzhou and Shaoxing, are ranked within the top ten cities, traditionally accumulated human resources in Zhejiang province. The social and cultural background of Zhejiang province has never been accidental, but it has accepted a market-oriented system based on traditional culture and climate in Zhejiang province. Such accumulation of human resources have made the grass roots market economy possible. We think that those interesting trends we could observe in Zhejiang province can provide important leads for transition and development by making the path clear.

Needless to say, inward FDI which has highly contributed to the growth of Jiangsu province (and of Guangdong province) has played a remarkable role for the transition. Particularly, the existence of Chinese business network for foreign investment has been indispensable for FDI inflows in China as more than 50 percent share of Hong Kong, Macau and Taiwan displays. To successfully accept the inward FDI needs, however, some circumstances have served as resources. It is the reason why we think the culture and climate in Zhejiang province have been crucial key factors for successful transition and development.

As indicated with Gini coefficient, income disparity in China has been beyond comparison with Central European transition economies. It suggests that as Pomfret's analysis mentioned, China is

“growth oriented” (1997). China has to have a more “system change oriented” reform (as described by Pomfret to be the Central European way of transition).

China, as a matter of fact, has employed more system change oriented measures such as promoting labor mobility through reformation of the family registration system, as well as such growth oriented industrial policy as Go-West Strategy in 1999, Industrial Region Promotion Strategy in North-West region in 2001, and Central Region Promotion Strategy in 2003. It would be therefore indispensable to investigate actual changes of disparities in China and to exactly recognize the way of Chinese transition, because those are necessary steps to construct a better theory of transition and development.

As was mentioned previously, the purpose of Chapter 5 is to examine reasons of successful gradual transition in China, through observation of the Yangtze River Delta region, through present situation of inward FDI, through the impact of development model differentiation and through comparative analysis with Central Europe (particularly with Poland).

As stated above, there have been huge differences between China and Poland, including area and population. It has been the “Zhejiang Model,” in which they have had the advantageous climate for a business mind. Since the founding of a nation after the Second World War and under the socialist system such an advantageous climate has never become extinct. We think that should be a key factor for the success of Zhejiang Model. (According to the way of expression in evolutionary economics, it is none other than “path dependence”). The current situation tells us that the Zhejiang Model has been more developed with the inflow of FDI. Another big difference of Poland has been the existence of Chinese business network whose ratio of the total FDI inflow in entire China has remained around 50 percent. The existence of the Chinese business network, meaning Hong Kong, Macau, and Taiwan (including The British Virgin Islands), should be correctly recognized as contributing to China’s successful transition.

As Pomfret (1997) correctly indicates, “China’s economic reforms were intended to produce economic growth not system

change” (p. 437) and Central European countries have “taken serious steps toward becoming market economies” (p. 439). Related to such a way of transition, China has suffered from income disparity and Poland huge unemployment rate. It can be predicted that in recent years, China has put a little more weight on system change leading to changes towards a more flexible labor movement, and Poland has placed a greater importance on producing more economic growth (as observed by the huge amount subsidy for the coal industry). The various ways of transition should be understood as evolutionary phenomena accompanied by a variety of diversities.

The purpose of Chapter 6 is to analyze the consequence and trends of Japanese FDI in transition economies paying more attention on comparisons of China with Central Europe than in Chapter 4. Generally speaking, transition economies have more barriers to attract inward FDI compared with advanced industrialized economies. We focus our attention in this chapter on China and Poland as host countries, both of which have their own characteristic barriers for inward FDI in a systemic sense. We also focus on Japan as a home country, whose companies are recognized to be risk-averse.

The following three issues are analyzed in Chapter 6: (1) based on risks related to systemic transition, we investigate motives and determinants of Japanese FDI in Central Europe and China, (2) taking into consideration the above-mentioned characteristics of China, Poland and Japan, it can be said that the scale of Japanese FDI in China and Poland has been rather small. We analyze here if this scale is reasonable, and (3) we examine ways among countries concerned to alleviate system-related risks focusing our attention on “sovereign partnership approach.”

By considering Japanese FDI in China and Central Europe, we can say that Japanese FDI in Poland kept its scale small and its motive shifted from market-seeking to export-seeking particularly in automobile and related industries. Those resulted from: (1) unsuccessful results of Polish radical transition than what was expected, and (2) freer movement of goods and factors with EU accession. Japanese FDI in China showed that its motive shifted from export-seeking to market-seeking mainly in automobile and related industries, and

consumer electronics industries, which was definitely recognized first in 1995. Also in 1995, the ratio of manufacturing increased and regional accumulation of FDI towards the Yangtze River Delta, particularly in Shanghai and Jiangsu province, expanded. Japanese FDI in China expanded again in 2000; its motive indicated a clearer trend of market-seeking. Fundamental factors of the trend were: (1) GDP increase, which seemed to be closely connected with successful gradual transition in China, and (2) institutional improvement on inward FDI accompanied by WTO accession.

Major characteristics of Japanese FDI as mentioned above might be brought about by big scale FDI into automobile and related industries, and of consumer electronics industries, whose industries are with product differentiation. Based on such characteristics, we think a determinant of Japanese FDI in Poland and in China is managerial resources disparity (see Komiya, 1972, p. 178).

We recognize that, even with managerial resources disparity, because there are several risky factors, FDI's are not so active. The sovereign partnership approach can be mainly used to interpret the phenomena as well as other theories. In this book, thus, sovereign partnership approach is examined as one of the possible ways to create international regime. The sovereign partnership approach expresses cooperation between sovereign states, which works to reduce risks in China and Central Europe. It is a partnership to protect economic rights and interests for both investor companies and host countries through bilateral and multilateral agreement among sovereign states. Governments concerned take action for relevant corporations and persons of the sovereign states. Their relations with the parties are completely independent, by which their welfare could be increased. The reason such formal relations are important is to guarantee investor companies protection of their necessary conditions under participation of host government. The sovereign partnership agreement can provide investor companies legitimate rights in host countries, with which they can avoid risk of unlicensed concerns. It is easily recognized in risky host countries that investor companies could not be given enough legitimate rights. Home governments, thus need to take action for respecting mutual sovereignty standing for investor companies (Morita and Rosefelde, 1994).

In cooperation with home government, it becomes possible to create order consisting of legal system improvement, etc., which is not easily established by transition countries. Such business setbacks as compensation for damages are tried to resolve within an agreement signed by governmental organizations.

Dominant governmental organizations exercise, through sovereign partnership, leadership over subordinate organizations, for example, to approve and cooperate in adjusting business setbacks. Needless to say such action is not based on altruistic reasons, whose *raison d'être* is expected benefits exceeding expected costs. The sovereign partnership seems to bring about opportunities for more FDI and for more development of transition economies. Probability of success with such agreement could increase, when more countries participate in the joint insurance system.

We investigate in Chapter 6 a reasonable explanation for the function of international regime and sovereign partnership, by interpreting it in line with McKinnon's analytical framework (1991).

A short conclusion of Chapter 6 is as follows:

- (1) As far as motives are concerned, we recognize a trend that the main motive of Japanese FDI in Poland has shifted to export-seeking and of Japanese FDI in China to market-seeking. It is reasonable to understand the determinant of Japanese FDI in Poland and China is disparity of managerial resources accumulation.
- (2) Approaching with FDI concentration index and trade linkage index suggests that it is difficult to support an assertion maintaining Japanese FDI scale in Poland might be comparatively small, and an assertion insisting Japanese FDI scale in China might be comparatively small is supportive.
- (3) Prospectively sustained macroeconomic growth and more globally standardized rules provided by WTO and EU accession will become Japanese FDI in China and in Poland more active.

Part III is focused on relationships between regional development, particularly regional integration and the tendency of globalization.

The purpose of Chapter 7 is to examine, taking into consideration the 1980s and 1990s, economic development and regional disparity in Yangtze River Delta and policy tasks in the future. Needless to say, because of the tasks Yangtze River Delta region has faced intensively reflect the same tasks for all over China since the 1980s, the analysis in Chapter 7 can become a meaningful lesson for the development of other regions in China.

By considering earlier literatures on disparities in China, the analysis of this chapter has the following characteristics. First, we take up the Yangtze River Delta region, which has been attaching greater importance on its economic development in the 1990s to be analyzed here, and examine the region by classifying it into the larger region and the smaller region. The larger region encompasses 21 cities, which are the Shanghai directly controlled municipality under the central government and the whole area of Jiangsu province and Zhejiang province; on the contrary, the smaller region has 14 cities closely encircling Shanghai. The geographical area of the 14 cities concerned here of the smaller region of the Yangtze River Delta is generally consistent with the Yangtze River Delta designated as one of the coastal open areas in 1985.

What should be indicated here is as follows; as for the above-mentioned “urban areas” usually mean the city area in which urban citizens having family registration live. “Urban areas” in this chapter point out the whole area of larger cities’ administrative districts in which counties are supervised by cities. It therefore means the “urban areas” in this chapter include both city controlled region of city areas (“urban areas” indicated above) and counties and towns classified as “rural areas.” Due to complications of “urban areas” in China, we have non-farming population showing the degree of urbanization as a probable explaining factor for disparity among cities in Yangtze River Delta, and we have prefectures in Japan, not cities, as comparative regions for our analysis.

Second, in Chapter 7 we study tasks of development from viewpoints of wider frameworks like economic development theory not from rather limited frameworks.

As asserted by Myrdal (1957) the accumulated disequilibrium in less-developed economies, immature situation of market economy

has hindered trickle-down effects for its development. On the contrary, in developed economies, backwash effects among regions as well as trickle-down effects work. When its latter effects contributed more than its former effects, it reduces the disparity between developed and less developed areas. Forming the regional economic area, which can work such a mechanism, is a hopeful way to diminish the disparity. As for China, for example, it gets away from the traditional system by dividing regions at many places directed by administrative division towards more flexible regional economic areas.

In China, we cannot have measures to indicate “area” like commuting ratio, etc. In Chapter 7 we will therefore not investigate to measure it but mainly examine conditions to form the “economic area.” We will formulate hypotheses for the conditions such as: (1) establishing market-oriented system based on reforming state-owned enterprises and, (2) creating the growth center in the region with supporting area at its hinterland.

More things on what should be mentioned in Chapter 7 are as follows: (1) we will analyze the actual situation and its significant determinants of disparity in the Yangtze River Delta region in the 1980s and 1990s, and also analyze changes of formation of regional economy and compare it. Particularly taking into consideration the Yangtze River Delta region which meets the conditions for regional economy formation, we investigate empirically the layer structure of city function, focusing our attention on financial aspects. Moreover, (2) in order to make clear the characteristic policy tasks of economic development in the Yangtze River Delta, we will compare it with economic development in postwar Japan. Through comparative analyses between various cities in the Yangtze River Delta and 47 prefectures in Japan in terms of disparity, its determinants, regional layer structure, etc., we consider the differences and similarities between the two.

Both examining actual situation and its determinants on regional disparity, and investigating regional economy formation, we can recognize relationships between them. That is to say, the actual situation of regional disparity might be a base to consider whether or not there exists a center of regional economy which is a necessary condition to form regional economic area, and to investigate the establishment of

a market-oriented system which is another necessary condition for forming regional economic areas.

The results which we have of the above-mentioned analysis and policy tasks related to regional development in the Yangtze River Delta in the future are summarized as follows.

First, it is necessary to eliminate disparity on non-state-owned sector among cities in the Yangtze River Delta, which means a necessary influence to reform state-owned enterprises. It is also necessary to carefully examine disparity from promotion of private-owned enterprises and attracting foreign-owned enterprises. Undoubtedly, we insist state-owned sector reform leads to more progress towards market-oriented economy.

Second, although the work force of agriculture and forestry industry in Japan was not a significant factor of regional disparity, in the Yangtze River Delta as of 1998 non-farming work force was the main significant factor of disparity among cities as well as non-state-owned sector. It means the Yangtze River Delta region has been confronted with the problem of how to appropriately adjust to progress of urbanization among cities. The core of disparity issue in China was the disparity among farming sectors. We can confirm in Chapter 7 that disparity among rural areas including a large city administrative district (meaning a system in which a city supervises county) took significant effects on disparity among cities in the Yangtze River Delta.

Third, the Japanese case study illustrates the important role of the heavy chemical industry on economic development. However, the heavy chemical industry in China, undoubtedly including the Yangtze River Delta region, which combined with state-owned enterprises has become stagnant under the transition wave towards market-oriented system since the 1980s. Meanwhile, the light industry has developed in the 1980s, led by foreign-owned enterprises (Guangdong Model) and TVEs (Jiangzhe Model). However, imbalance between the more developed light industry and the less developed heavy and chemical industries might be difficult to lead China to a more developed country. As there has been significant correlation between traditional state-owned enterprises and heavy and chemical industries, it is an important task to find way(s) to develop

heavy and chemical industries as well as reforming state-owned enterprises.

Fourth, the case study on the Yangtze River Delta region shows that disappearing regional disparity (in order to develop the regional economy) has an indivisible relationship with forming a regional economic area to breakdown the cyclical and accumulative poverty. Also in Chapter 7, we illustrate the importance of creating a regional center to establish a regional economic area.

In the 1990s, we can say China had the initial success to create a growing center, Shanghai, by policy measures. However, Shanghai in the 1990s was more concentrated (in financial functions) than Tokyo. Thus promoting cities such as Nanjing, Hangzhou, Ningbo, Suzhou by policy measures to be sub-growing centers is a necessary condition for reasonable development of urban economic area in Yangtze River Delta.

We pay attention in Chapter 8 to the characteristics of the East Asian model. The main purpose of this is to find several empirical rules, which are not obvious in authoritarian development system.

In order to examine the above issue, we classify in this book authoritarian development models of East Asia into three, which are (1) East Asian NIEs model, (2) Southeast Asian model, and (3) Chinese model. Empirical rules indicate the rules which became tangible to some extent in East Asian region, and are likely to come into existence also in China in the near future (which have rather universal validity).

There can be difference from one country to another. Special circumstances of respective countries should be added when we investigate the logic of development model. Even in the same country, there could also be differences between periods due to particular characteristics of a respective period, because compared to a democratic political system with fairly mature separation of the three branches of government, the authoritarian development system undoubtedly has a relatively unstable structure. Such special circumstances arise from various factors like a leader's personality, size of the nation state, as well as racial and religious complexity.

We state in Chapter 8 various characteristics of political and administrative aspects in East Asian model with explanation of the Taiwanese experience. The following two are the most important.

- (1) We recognize that both agricultural land reform and local autonomous system at the early stage of development (1950s) were the bases to make authoritarian system in Taiwan stable. Compared with Taiwan, South Korea was similar in carrying out agricultural land reform, however, with regard to political system, a direct election of the President was put into effect in earlier period (1987) but direct elections in local areas were realized at a later period (1991). The process of democratization in South Korea “from the top to the bottom” was the opposite of Taiwanese democratization process of “from the bottom to the top” (what is called a direct election of the President in Taiwan was implemented in 1996 for the first time). The difference of democratization process of South Korea from Taiwan might be related to an economic development model in which the *chaebol* (South Korean *zaibatsu*) played the central roles. That is because at the election of the President the *chaebol* could work better than inconsistent ordinary people, and also because the *chaebol* contributed to relative stability of the political situation and for the maintenance of an authoritarian system. On the contrary, the Taiwanese model of economic development could be said as small and medium sized enterprises played important roles, which might be related to the local autonomous system. However, even if we could recognize significant causal relationships between authoritarian system and industrial structure, it might be difficult to judge scientifically the cause and effect of the two.
- (2) Under the extroversive market-oriented system, groups of technocrats were promoted to political leaders and administrative executives. At the institutionally less developed stage, those technocrats demonstrated their ability of institutional rationality and moral independence which played a kind of

substitute of immature institution. Accompanied by evolution of socio-economic system to be more complicated, in order to have better governance, wisdom of technocrats group became never enough, which led to active involvement of civil society for public policy. It could be recognized as a prelude to political democratization. In line with the social tendency, institution building, particularly establishment of legal order became a central task for the society, also in concert with which characteristics of top leaders and bureaucrats transformed from science and technology centered to law and politics centered.

In addition to the above two Taiwanese experiences, East Asian NIEs model countries and regions have some similar social characteristics, examples of which are as follows.

- (1) They are racially homogeneous countries and regions, which seemed to contribute for promotion and maintenance of social centripetal force.
- (2) They have polytheism. It might have come from Confucian supremacy, which contributed to social generosity.
- (3) They are small-sized countries and regions, which made sustaining social uniformity easier. With regard to external environments for East Asian NIEs model countries and regions, we could recognize some common characteristics.
- (4) In particular, they have been supported by the USA directly or indirectly. Both South Korea and Taiwan have been directly supported by the USA. The USA also contributed to both Hong Kong and Singapore for their export market and for developing their technocrats.

Can China become a member of East Asian model?

Analysis of two Asian models gave China careful suggestions indicating that, without establishing a people-centered model of economic development, it is impossible to have successful modernization and successful systemic transition.

Through Deng Xiaoping's reform and open door policy, China gained the initial logic towards extroversive market economy. However, it was only a necessary condition but not a sufficient condition. In Chapter 8, in light of shared growth concept we analyze the problems of Chinese society from viewpoints of (1) relations between urban and rural, and (2) characteristics of bureaucrats, which lead us to the following concluding remarks.

- (1) There are serious difference in industrialization ratio between production and employment. We should emphasize a necessity to introduce industrial policy attaching greater importance on employment, and policies related with rural areas to make peasants more active and freer (by such measures as land reform and local autonomous system).
- (2) Since the Deng Xiaoping's reform and open door policy in 1978, China is still being ruled by technocrats in science and engineering. However, we could recognize substantial change from the end of the 1990s. Compared with the traditional ruling of a country by technocrats, bureaucrats in economy and finance have occupied a significant position in the Chinese administration. We think that this has been caused by the development ideology towards open economy and open society. In China, the necessity to have experts in economic and social management has been recognized which seems to be an irreversible tendency. Meanwhile, at the same time, China has serious tasks to overcome, which are (i) dual structure of bureaucracy in vertical administration strata and (ii) corruption.
- (3) In the days of globalization, introversive management of the economy and politics has become impossible. Internal problems might be received by international influence. We could also understand that, when China tries to solve the above stated problems, the logic of "authoritarian system is opposed to authoritarian system" comes into existence.

The purpose of Chapter 9 is to investigate the way towards East Asian integration compared with particularly EU. As the title of

Chapter 9 indicates, as the successful integration needs several hard conditions like EU, we approach the regional integration issues with path dependence analysis.

The Vienna Institute for Comparative Economic Studies (WIIW) showed in February 2008 that “the majority of the new EU member countries have been enjoying a period of robust economic growth.” Even with the global financial market troubles, the GDP growth rate of these countries is expected to only slightly decrease to be around five percent (over the period 2008–2010) from about six percent in 2007. According to WIIW, their economic growth will be mainly coming from rising consumption and investment, the “latter will be bolstered by much higher transfers from the EU budget.” Both rising consumption (from rising labor incomes) and investment, and EU budget transfer are needless to say the effects of joining EU.

We can point out from viewpoints of Chapter 9 that they are positive due to their extroverted tendency towards EU. Compared with the tendency towards extroversion in EU countries, East Asia has been seriously characterized by introversion (immature nationalism), based on which it might become difficult to view their creation of institutional integration. In Chapter 9, we examine the issues with the neo-institutional approach.

We can recognize, from our points of view, the following three as more significant ones, which are:

- (1) The assertion saying that the East Asian Community can be considered as a positive functional organization which will not move in a wrong direction towards protectionism and introverted tendency of EU and NAFTA. When the Asian Community is created, it can be positively evaluated to promote free trade. This kind of assertion seems to be important because it leads us to correct relations among Europe (EU), the USA (NAFTA), Japan and China (East Asian Community).
- (2) The insistence stating that the national interest of both the USA and Japan has common grounds by creating the East Asian Community. If such insistence is correct, both prerequisites of construction of peaceful and friendly relations between China

and Japan, and reinforcement of US-Japan alliance can exist without contradiction. Thus, the East Asian Community can be created successfully through the drastic changes (as insisted by Munakata, 2006).

- (3) The assertion from viewpoints of the neo-institutionalist approach. The above-mentioned insistence (2) is difficult to be consistent with the neo-institutionalist approach. From the institutional point of view, as far as custom and culture is different, searching for the simplification and unification in the sphere of social order is unrealistic. Thus, the creation of an East Asian Community is doubtful. Such assertion is meaningful because it leads us to the assertion of path dependence. Therefore, it seems to be reasonable to introduce the neo-institutional viewpoints when we argue the community issue closely relating China and Japan. Actually the analysis in Chapter 9 is closely connected with our analyses such as those cited in Chen and Morita (2005), Morita and Chen (2006).

The analysis of Chapter 9 relates an issue whether or not it can be broken away from path dependence. If it is able to break away from path dependence by the drastic change, the East Asian Community can be created successfully. On the contrary, if to intensify the unification of custom and culture is difficult (if path dependence of respective country can be maintained), it is difficult to create the East Asian Community.

Chapter 9 also points out the progress of “*de facto* integration” of East Asia. We study the significant existence of the USA as the order providing agent in the region of East Asia, which leads us to the significant introversion of East Asian countries. It thus means that in East Asia, we need the transformation from “nationalism” to “internationalism” (from “introversion” to “extroversion”). It is easily recognized that, among East Asian countries, the tendency towards FTA has been accelerated and trade ratio among inter-regional countries to the world total has become larger.

However, with regard to FDI among inter-regional countries, there could become significant difference between EU and East Asia.

This suggests the existence of various risks in East Asian countries coming from the “introversion.” Such risks seem to be closely connected with custom, culture, history and institution, etc., as often pointed out in FDI issues. We think the problems suggest those related with path dependence. The big difference between EU and East Asia can be said, in other words, are the problems on path dependence.

Based on the investigation from viewpoints of neo-institutionalist approach, as stated repeatedly in this book, once path dependence is recognized, it is not easy to break away from institutional importance. Then what are necessary to break away?

By expressing in a simple way, the necessary conditions are: (1) extroverted oriented change, (2) domestic demand led growth, (3) economy with strong institution, and (4) moving towards a regional community depending on mutual confidence and shared desires. Such drastic changes make the East Asian Community plausible by breaking away from the path of dependence, which also yield decreasing returns and competitive market possible.

In our way of expression, they are changes (1) from nationalism to internationalism, (2) from introverted activities to extroverted activities, and (3) positive construction of regional order by positively promoting international exchange.

The conclusions we can reach in Chapter 9 are as follows:

- (1) In the East Asian region, we can recognize the *de facto* integration or functional integration compared with the institutional integration of EU.
- (2) Creating the East Asian Community or such community in Asia can be considered as a positive functional organization which can check movement towards protectionism and introverted tendency of EU and NAFTA. It is a correct way for the primary purpose of WTO to complete. We think it is correct to recognize the relations between globalization (like WTO) and regional integration (like EU, NAFTA and East Asian Community) as such functions as checking not to move towards a wrong way.
- (3) We can also recognize the similar tendency of international trade of UK with Commonwealth Nations and the (then) EC when

UK joined the then EC, and international trade of Japan with the USA and China after around the year 2000. It describes the progress of *de facto* integration.

- (4) We understand the significant existence of the USA as the order-providing country in the East Asian region and the significant introversion of East Asian countries. We think it means that in East Asia we need the transformation from “nationalism” to “internationalism” and from “introversion” to “extroversion.”
- (5) It is easily recognized that, among East Asian countries, the tendency towards FTA has been accelerated and the trade ratio among inter-regional countries to the world total has become larger.
- (6) However, with regard to FDI among inter-regional countries, there could be significant differences between EU and East Asia. This suggests the existence of various risks in East Asian countries mainly those from the “introversion.”
- (7) From viewpoints of neo-institutional approach, it seems to be difficult to think that the East Asian Community can be created in the near future because breaking away from path dependence of (probable) member countries particularly of Japan and China is difficult, because the custom and culture, etc., are significantly different.
- (8) From viewpoints of neo-institutional approach, in order for East Asian region countries to break away from path dependence, it is indispensable to transform from introverted activities to extroverted activities, from nationalism to internationalism.

The above description is the main message of this book, with which we thus finally think that, since the beginning of the 1990s when transition started, because of the demise of Cold War and the failure of Soviet-type socialist systems, globalization led by the USA way of market-oriented efficiency system has become more dominant. It has undoubtedly made international economic and political systems more competitive, which has led overall international economy and politics to become more efficient towards integration. FTA expansion movement can be interpreted by practical ways along with theoretical

considerations. It also points out to more advanced types of integration like community. Integrations such as the EU, NAFTA and (potential) East Asian Community have been shown as examples of this tendency. How should we interpret the integration tendency? As it can be competitive towards increased efficiency, it means to break away from path dependence. Thus, this book debates how we can break away from path dependence to diminish barriers arising from differences of institutions, cultures, customs, etc.

On the occasion of the publication of this book and at the close of this Introduction, we would like to express our gratitude for the financial support of (in no particular order) the Humanities and Social Science Planning Project of the Ministry of Education in China, ‘Empirical Study on Economic Development Model in China (2008–2010, Project Number: 08JA790021)’, the Philosophy and Social Science Priority Project of the Ministry of Education in China, ‘Study of Macro Policy on Energy Saving and Reduction of Pollution Discharge (2008–2010, Project Number: 07JZP0008)’, the Shanghai Planning Project in Philosophy and Social Science, ‘Empirical Study on Regional Development and Income Disparities (2007–2009, Project Number: 2007BJL002)’, and the Japan Society for the Promotion of Science (Grant-in-Aid for Scientific Research), ‘The Bubble Phenomena and the Function of Futures Markets in China (2008–2010, Project Number: 20530242)’.