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Zoning trans-regional projects in the belt and road initiative: How does Chinese local government re-assemble policy and capital in the China–Myanmar economic zones

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Abstract

This article investigates the role of Chinese local governments in the China–Myanmar Economic Corridor (CMEC) under the Belt and Road Initiative (BRI). It focuses on the practices of local governments in Yunnan, a province strategically significant for its proximity to Myanmar and its historical role in China's border trade and governance. The research explores how provincial, prefectural, and city-level authorities in Yunnan actively shape transnational economic clusters through industrial policies and socio-economic governance. Drawing on official documents, reports, and interviews with policymakers, entrepreneurs, and industrial park staff, the study highlights the dynamic interplay between local and central government initiatives in the BRI-driven CMEC projects. By adopting a constructivist perspective, the article critiques state capitalism theories that overemphasize central government dominance and crony relations with big conglomerates. Instead, it argues for recognizing the multi-layered and pluralistic nature of the Chinese state, where local governments mobilize policies to align national development goals with local interests. Through two case studies, the analysis demonstrates how local governments integrate policies of Special Economic Zones (SEZs) into the CMEC framework to balance industrial development with socio-economic objectives. The findings underscore the contingent and localized nature of policy implementation, offering a nuanced understanding of governance in transnational development contexts. This research contributes to the literature on state capitalism, transnational economic cooperation, and the role of local actors in shaping BRI projects.

Keywords

Local governance in China, political economy of special economic zone, policy assemblage, belt and road initiative and state capitalism

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Introduction

This article investigates the practice of the Chinese local government in the China–Myanmar Economic Corridor (CMEC) planning under the Belt and Road Initiative (BRI). The CMEC is a cross-regional, cooperative economic plan that has facilitated infrastructural construction in Special Economic Zones (SEZs) and border economic cooperation zones, as well as the co-production of social programs and industrial policies by authorities from China and Myanmar (Lee et al. 2018; Su and Lim 2019). The project has experienced various problems from the beginning, not only because of the volatile political situation in Myanmar but also because it did not encompass the concerns of local citizens and authorities in its early stages. Of course, the outbreak of COVID-19 has also stalled the project over the last 3 years. Therefore, this article focuses on pre-COVID-19 data in its analysis.

Current scholarship often treats China and Myanmar's economic cooperation as (1) an opportunistic and uncertain trans-regional/national cooperation scheme (Huang 2016; Karim and Islam 2018) or (2) a sweeping economic plan which reinforces China's state capitalism in the Asian Pacific area (Khin Zaw 2018). The first trend examines how industrial and trade policies around the BRI can promote cooperation between China and ASEAN countries. The second assesses the potential social and political risks of the BRI to countries along the CMEC (Gyi 2019; Htwe 2020). In general, each stream of research takes a macro-level view of state-market relations, arguing that statist economic cooperation projects such as the CMEC mean that state power—here Chinese central state and subnational state power—intervenes in market relations among host countries. Other studies argue that the Chinese-led CMEC's lack of attention to social sentiment, labor systems, and environmental policies in recipient regions lead CMEC projects to trigger Sinophobia (Kyaw 2020). This article focuses on how the CMEC, as a BRI-led transnational development project, is shaped by different local authorities and business networks in China.

This article investigates the practices of the Chinese local government in the CMEC, attempting to understand local governments in China as participatory, not just entrepreneurial, players in transnational economic cooperation. The local governments discussed in this paper are the provincial, prefectural, and the city-level governments in Yunnan. Yunnan is a representative province in the study of Chinese local governments' participation in the transnational progression of the BRI for several reasons. First, local governments in Yunnan are direct participants in the CMEC program. Second, historically and geographically, Yunnan has been crucial to China's export-oriented economy and border governance in relation to Southeast Asia. This study focuses more on the actions and roles of Chinese local governments in the CMEC program than on the roles of local governments in Myanmar because Chinese local governments are more directly involved in the BRI framework, and because I could not access Myanmar's local governments to do fieldwork between 2019 and 2020 due to the COVID-19 pandemic. I look forward to doing subsequent fieldwork in Myanmar to learn more about how CMEC cooperation is practiced in by the local authorities in the country.

Here, my research question is as follows: how do local governments in China appropriate policy schemes to build transnational economic clusters? Attention to the role of local governments (e.g., "local governments as corporations" or "local government entrepreneurialism") in China Studies can contribute to our understanding of CMEC policy assemblage. However, my research does not only illustrate how local governments shape policy; I also discuss the extent to which local government initiatives are shaped by the established tensions of central-local and state-society relationships. This article thus takes a constructivist perspective and advocates an approach that focuses on policy assemblage.

Indeed, this article argues that the multi-faceted political and economic agenda in CMEC projects is very much embedded in the vertical tensions between central and local government in China and is actively re-shaped by different actors within the local government-enterprise nexus in border areas. It argues that the state per se is multi-layered and pluralistic, involving multiple institutions, structures, and processes operating at different levels, sometimes with opposing interests and goals. In this way, it develops the theoretical critique of state capitalism in the field of BRI-related studies, which has previously stressed the relations between the state and large enterprises. Accounts of state capitalism often overstate the crony relations between government and domestic conglomerates and the role of central government as protector of these conglomerates, ignoring the agency and the mobilizing power of local authorities in economic development. This study thus emphasizes a constructivist perspective that recognizes the multi-layered nature of the Chinese state. Constructivists, in the sense the term is used here, examine socio-political practices through bottom-up studies that emphasize the contingency of these practices. This perspective encourages a certain attention in studying policy models: “studying how these models mutate as they move, and examining how they become part of new policy assemblages through a combination of everyday local practice and global connection” (McCann and Ward 2013: p. 14). Local practices of BRI-led industrial policies exemplify a new model of governance in which Chinese local governments not only bundle industrial policy with other socio-economic policies, but also use, shape, and thematise industrial policies to package local interests into the national development goals of the BRI. This study finds that the local and contingent nature of industrial policy implementation in this transnational development context demonstrates the fragility of the state capitalist model.

Method and data

This article draws mainly on two sets of data. First, I systematically collected official documents and reports at local, provincial, national, and transnational levels. These include: policy regarding the CMEC, policy regarding free trade zones in Yunnan–Myanmar border areas, yearbooks of local industrial development plans in Yunnan and Myanmar, and reports and statistics about free-trade zones at border entry points. Second, I conducted semi-structured interviews with actors related to the above policy practices and trans-regional/national business activities. These interviews were conducted offline or online with local government staff and academic researchers in Yunnan between July and August 2019 and June 2021, each lasting 60–90 minutes. I made a short field trip and completed offline interviews in July 2019. After the outbreak of COVID-19, the interviews were mainly scheduled online.

I also interviewed industrial park staff and entrepreneurs who were directly involved in the construction of an economic zone. The interview questions were open-ended and semi-structured, targeting interviewees in different roles, and focused on three main themes: (1) the China–Myanmar partnership and the implementation of this BRI-driven cooperative project at the local level (e.g., “How has the China–Myanmar relationship influenced changes in local industrial policy?” and “What changes in China–Myanmar relations have been influenced by the BRI? How are these changes reflected at the local level?”); (2) the impact of BRI-driven industrial zone policies on industrial investment and local socio-economic development in Yunnan (e.g., “What is your understanding of and involvement in the current construction and cooperation of the BRI zones?” and “How can localities respond to or participate in the construction of new infrastructure?”); and (3) the transformation of economic and social governance models in border industrial zones (e.g., “What changes have occurred in the current governing bodies and functions of the zone?”, “Why have these changes taken place?”, and “What is the relationship between them and local government?”). Interviewees working in government were questioned on all three of the above themes.

Entrepreneurs and industrial park workers were mainly questioned on the second and third themes. The identity of the interviewees is kept strictly confidential in this study. Their personal observations and perspectives are important for understanding how the central government's industrial and social policies are communicated and practiced at the local level. Some of the interviewees shared information about how to find reliable local public statements and local websites for the interpretation of policy documents. Especially through analyzing answers regarding the third theme, I found that, while the implementation of industrial policy is undoubtedly the most important source of assessment for local governments in China, this implementation is increasingly accomplished by matching social (governance) policies to local social structures.

Contextualizing the China–Myanmar social-economic relationship in economic zones

Yunnan, a southwestern province of China, shares borders with Myanmar, Laos, and Vietnam. It has had frequent economic and cultural exchanges with and served as an interface for Chinese engagement with these countries (Ptak et al., 2022). After China's reform and opening up in 1978, the central government implemented a special border trade zone policy at Yunnan border crossings, giving low tariffs on imports and policy support to investors from the Indochinese Peninsula. Cross-border economic relations were based on ethnic and social ties (Summers, 2013; Tubilewicz and Jayasuriya 2017; Song et al. 2024). Chinese and Burmese with special border people's identity cards (*bianmin zheng*) could freely do business in the trade zone. During this period, China imported Myanmar's agricultural and raw materials, such as timber, while exporting light industrial goods to Myanmar. In the 2000s, the State Council established the area of Ruili-Jiegao as a "Border Trade Zone," and implemented a policy called "inside the border, outside the customs."¹

However, it is rare for Yunnan border cities to cash in on their situated advantages by joining in transnational cooperation frameworks directly, and "no local development projects are sponsored directly by transnational organizations such as the Asian Development Bank" (Qian and Tang 2019). Yunnan's influence on the formation and implementation of foreign policies, such as those regarding security, has drawn some academic attention (Wong 2018). However, border cities have been recognized as bridgeheads, rather than active facilitators, linking South and Southeast Asia through trade, outward Chinese investment, and transnational infrastructure networks in the eyes of national government.² This singular policy objective has created an imbalance between the western border regions and the diversified development of eastern China (Su 2013). After the 2010s, the Yunnan government strengthened its support for export-oriented enterprises and began to increase exports of value-added industrial products such as electronics and machinery (Ptak and Hommel 2016). Although the State Council in China has attempted to establish experimental export-oriented economic zones along the border through the "deepen the Great Western Development Campaign," the transfer of industries from the East to the West to combat poverty has been seen as an attempt to relocate manufacturing-driven sectors from China's eastern coastal cities.³

It is crucial to consider how Yunnan's current status in China's domestic political economy affects its role in the BRI framework. Scholarship has highlighted the importance of the provincial government and local authorities of Yunnan in China's outward economic orchestration. Wong (2018) discusses how Yunnan has negotiated a balance between energy imports and energy security governance with the central government by opening up natural gas trade with Myanmar, thereby meeting local interests. Han (2019) and Su and Lim (2019) use Yunnan's opium substitution program to illustrate that the provincial government has the capacity to reshape the political and economic governance of the border area. Summers (2019), discusses how Yunnan has responded to the central government's directives and discourse regarding the development of BRI programs since

2015. [Summers \(2021\)](#) argues that Yunnan's responsiveness to the central government's policy intentions reflects the provincial government's proactive approach to governing China's border. With the further promotion of the BRI, the importance of prefectures and cities close to the China-Myanmar border, such as Dehong, Lincang, and Ruili, as part of China's globalized trade and cultural exchange is becoming more and more evident ([Ptak et al., 2022](#); [Song et al. 2024](#)).

Outline

This article is divided as follows. The second section outlines the historical background of SEZs and their function in the formation, and academic analysis, of state capitalism in post-war emerging economies; it briefly introduces the SEZs in China after the Reform and Opening-up in 1978. The third section sketches a framework to understand local state's multi-faceted governance in the BRI-driven CMEC, leading into discussion of the relationship between the state and enterprises in the CMEC. In the fourth section, I focus on two specific cases to examine how SEZs have been brought back into the trans-regional cooperation framework by local governments and how they are mobilized to serve local interests. The case studies discussed in this section allow for further reflection on the definition and interpretation of state capitalism in critical political economy in the concluding section.

State capitalism and local practice of BRI-driven SEZs in China

State capitalism, SEZs, and economic development

Some of the most important discussions of economic zones come from the study of state capitalism in East Asia (Lee, 2017; Park et al., 2017). These industrial hubs, established to stimulate specific economic activities and promote structural change, are recognized as an important realization of industrial policies after the Second World War ([Rodrik, 2008](#)). Referred to as "special economic zones," "industrial zones," "high-tech parks," and "free trade zones," they have inspired research in development studies regarding the state's role in economic restructuring. It should be noted that, although these zones have different names and functions and exhibit different planning processes depending on their region's level of economic development (see [Figure 1](#)), their existence collectively demonstrates that East Asian governments remained active in regulating market activities through spatialized industrial policies through different stages of economic development. "In almost all postwar East Asian economies and China, the approach of industrial agglomeration has been embedded in their industrial policies, with the state playing a strategic role" ([Oqubay and Lin, 2020](#): pp. 16).

The greatest expansion of these zones occurred in developmental states in East Asia. The result of industrial space-making policy, a series of economic zones were established in Taipei, Shenzhen, Beijing, and Singapore. These zones developed processing and export industries as well as foreign trade, while strengthening the state's role in the export-oriented economy. Many studies have discussed East and Southeast Asian countries whose national economies have grown tremendously even in the absence of radical democratizing reforms, positioning these countries as following a state capitalism model ([Walter and Zhang 2012](#); [Kurlantzick, 2016](#)). The discussion of state capitalism in political economy focuses on examining the role of the state and state-supported enterprises in the process of economic development and present globalization ([Bremmer, 2010](#); [Aharoni, 2018](#); [Chan 2020](#); [Gertz and Evers, 2020](#)). Scholars have particularly highlighted how newly industrialized South Asian states have used industrial policy, widely criticized in (neo-)liberal economies, to accelerate export-led industrialization and regional development ([Öniş et al., 1991](#);

Zones	Function	State's support	Examples
Large-scale Special Economic Zone	1) Support partial exposure to global markets while maintaining protective barriers; 2) Support a wider economic reform strategy; 3) Serve as 'pressure valves' to alleviate large-scale unemployment	1) Infrastructure: serviced land, factory shells, and utilities' 2) Special customs regime: efficient customs administration and free of tariffs and duties; 3) Improved regulatory and administrative regime 4) Attractive fiscal regime: reduction or elimination of corporate taxes, VAT, other taxes, labour contributions	Shenzhen SEZ
Free (trade) Zone	Established for trade-related processing and services	1) Infrastructure: serviced land, factory shells, and utilities 2) Special customs regime including efficient customs administration: free of tariffs and duties;	The Shannon Free Zone Mauritius Free Zone
Export Processing Zone	Established for export-oriented manufacturing and processing	1) Infrastructure: serviced land, factory shells, and utilities 2) Attractive fiscal regime: reduction or elimination of corporate taxes, VAT, other taxes, labour contributions	Masan Free Export Zone Santacruz Zone
Innovation-driven Industrial Park	Established for (domestic and/or export-oriented) manufacturing of tech-products and services	1) Infrastructure: serviced land, offices, and utilities 2) Special customs regime including efficient customs administration 3) Improved regulatory and administrative regime 4) Attractive fiscal regime: reduction or elimination of corporate taxes, VAT, other taxes, labour, innovation policy, high-tech investment policy contributions	Shenzhen Nanshan Hi-tech Industrial Park Taiwan Hsinchu Science and Industrial Park

Figure 1. Source: Author's summary derived in part from FIAS (2008:10) and the definition of SEZs characterized by Thomas Farole (2020), the Global Experience in Special Economic Zones: A History and Review, in *Industrial Hubs and Economic Development*, edited by Arkebe Oqubay and Justin Yifu Lin.

Johnson, 1999; Walter and Zhang 2012; Zhang and Whitley 2013) and to govern transnational projects (Gertz and Evers, 2020). This "Industrial policy-strong state nexus" model highlights the cronyism between governments, especially national governments, and large companies (Wong, 2004; Schweinberger, 2014).

A few critical studies have demonstrated that state capitalism as an analytical framework presupposes a number of normative dichotomies, such as state versus market, liberal versus illiberal, and democratic versus authoritarian (Alami et al., 2022; Hameiri et al., 2019; Petry 2020). State capitalism turns into a suspicious term if scholars define the relation between state and business with a sense of historical totality, without noticing the uneven development of the term and the variegated manifestations of state and business relations in the twenty-first century (Alami and Dixon 2020; Petry 2021; Sperber 2019). In thinking about globalizing economic and social development such as the SEZ, for example, the framework of state capitalism also risks ignoring the differences in state-business relations in different economies. The main difference between most East Asian economies and China in terms of statecraft during their development is that the state encouraged private conglomerates in these countries, while state-owned enterprises (SOEs) reaped more from industrial policy in China. As mentioned in the introduction, unlike other countries considered exemplary of state capitalism, the government in China does not see private capital as close partner to be allied with, but rather as an object to govern. Especially with China's rapid entry into global economic competition, this contradiction will become more and more obvious (Liu and Tsai 2021; Szamosszegi and Kyle 2011).

Zoning and China's economic development

Zoning has been used to experiment within China's economic development model since 1978 when Deng Xiaoping seized power and launched market-driven reforms. China's approach to developing

export-oriented SEZs emerged within a state-led industrial framework, similar to that of the Four Little Dragons of East Asia (Kozul-Wright and Poon 2019). These industrial zones/parks have a narrow scope and implement policies to attract external production and foreign direct investment (FDI), as well as promote their own development in the domestic economy (Démurger et al., 2002). Hubs such as Shenzhen, Shantou, and Suzhou were initially designed to attract FDI, and overseas Chinese were the first to invest.

Between 1984 and 1988, the State Council approved fourteen national SEZs in twelve coastal cities, and SEZ policies were recently combined with others to better mobilize people and capital converging in the newly built zones (Rodrik, 2011). From mid-2010s, SEZ development has been further driven by the BRI. Through the current zoning of business clusters in Asian Pacific and Eurasian countries, the China's government intends to "create a community bound by fate." This is a moral slogan initially used by the 6th (2003–2013) President of the People's Republic of China, Hu Jintao, to define an inclusive unification of different nation-states and organizations to face the economic crisis. In the year 2013, this initiative was unveiled by President Xi Jinping during visits to Kazakhstan and Indonesia, and was thereafter promoted by Premier Li Keqiang during his visits to Europe. According to China's BRI Portal, by the end of 2022, Chinese enterprises had helped build 125 cooperation zones in 20 countries along BRI routes, with a combined investment of over US\$41bn.

The prevalence of China's state capitalism? – (Local) State and enterprises in the BRI-driven projects

The BRI, Beeson and Watson (2019) argue, will make China a world class trade center. Chan (2020) claims that the essence of the BRI is state capitalism, and the program is a new form of economic and regional governance through which the central government promotes state owned enterprises (SOEs) in transnational and cross-regional projects. Gertz and Evers (2020) further explore how large enterprises are aligned with state goals in the BRI and the government relies on businesses to advance its geopolitical interests. Thus, SEZs, are imagined as a BRI policy tool. Whether China practices state capitalism via BRI SEZs or not is debatable even after the country's market-oriented reforms. From a neo-institutionalist perspective, China's reforms entailed some characteristics of state capitalism. As summarized by Barry Naughton and Kellee Tsai, there are two main organizational bodies of state capitalism in China: SOEs in strategic industries and private sectors associated with the state's industrial planning (Naughton and Tsai 2015). These two state-chartered economic organizations have benefited from China's reform and opening up over the past decades.

However, the state-business relationship is not the only tension affecting the implementation of economic policies such as zoning. This is also grounded in a series of tensions between the central government and local government in China (Huang, 2016; Kostka and Nahm, 2017). As discussed in China Studies, after the tax reform in 1994, the taxation power of local governments was transferred to the central government, and the cash-strapped local governments tended to "corporatize" their taxation and policy practices, attempting to maintain their relationship with local enterprises and engage in policy arbitrage. They began to rely on "policy entrepreneurs," such as local governmental-led associations, NGOs, and media, to regain negotiation power and compete for financial support through various industrial policies and social development programs (Ahlers et al., 2016). As local governments compete for central policy resources, they can become similar to a federal government (Walder 1995; Montinola et al., 1995; Gu et al., 2016). And many scholars studying the practice of BRI policy today argue that "when this Chinese style of federalism meets foreign relations, it does undermine the Chinese central government's monopoly on its foreign

relations and, in this case, the BRI” (Zeng 2019). In this situation, central policy becomes increasingly malleable to the interests of the multi-layered governments and agencies who practice that policy. This governance model has been characterized as “fragmented authoritarianism” (Brødsgaard 2016; Mertha 2009).

Discussions have emerged in BRI studies that highlight the fragmentation of the state (Abels and Bieling, 2023) and bring the local state back into focus (Li 2019; Loughlin and Grimsditch 2021; Mayer and Zhang 2021; Mierzejewski, 2021; Ptak and Konrad 2021; Ye 2021; Zeng 2019). In the China–Myanmar BRI context, however, current research analyzing domestic politics remains primarily focused on tensions between various central government bureaus and local SOEs (Mark and Vakulchuk, 2020) in their promotion of the CMEC. That being said, some recent studies on China–Myanmar economic cooperation note novel realignments of local governments and business groups: mobile businessmen working on national borders, local authorities, and citizens interact with each other as participants in statist projects (Chen, 2005, 2018; Wong 2018; Song et al. 2020; Calabrese and Cao 2021; Ptak and Konrad 2021); informal business connections between cities in the border areas, continue to contribute to cooperative activities (Chen, 2005; 2018).

These are, of course, complicated dynamics. Among cooperative China–Myanmar projects, the Myitsone hydropower plant is most often cited as an example of Chinese SOEs failing abroad; scholars also argue that the project violates several regulations and reflects the broken top-down project supervision system of the central government in China’s outward FDI (Jones and Zou 2017). In the CMEC SEZ project, we further see the weaknesses of SOEs undertaking overseas projects and how local governments have become key in this new type of government-enterprise relationship. Based on these insightful but still limited discussions around the role of local governments in the BRI, this paper assumes that the state is a multilayered, aggregated entity in China’s fragmented governing landscape. As policy filters down from the central government, local governments become more independent actors and compete as well as negotiate their interests across the power spectrum.

The following sections will use concrete case studies contextualized with a constructivist analytical framework focused on policy assemblage to unpack local policy practice in BRI-driven SEZs in China. By examining the process of constructing these SEZs and the political and economic actors involved, we can see how state capitalism has diminished in different regions. Focusing on the role of Chinese subnational governments and local-state supported enterprises and NGOs in the creation of SEZs, we can better picture how government-enterprise relations in China have changed and how these changes can contribute to our critical understanding of state capitalism.

Zoning the BRI: Understanding the local state’s policy practice in the CMEC SEZs

The local practice of central government policy indicates governance arrangements as social-economic nexus “that are (re-)produced by a continuous reconfiguration of relations” (Albrecht 2015: p. 384). Thus, as discussed in recent studies on China–Myanmar socio-political relations, we should also deal with how these local social and business interactions shape cross-border regional cooperation (Calabrese and Cao 2021; Chen 2018; Song et al. 2020). Further, we need to think about “governance beyond policy documents” (Parks 2019). Indeed, according to Prince, “implemented policy is an assemblage of texts, actors, agencies, institutions, and networks” (2010: p. 173).

This analytical framework emphasizes how different actors strategically use policies to build connections with each other. New and existing governance arrangements are shaped by multiple policy discourses and intentions. Following from this, I understand the BRI as a policy machine. It

has given rise not only to an industrial system but also to co-ordination between different policy schemes and intentions: a policy assemblage. In interviews, many local officials highlighted the BRI is a mandate; new policies must serve it. However, they must also meet local realities.

Under the BRI-driven CMEC framework, Yunnan's provincial government has attempted to reconcile contradictions between existing industrial and social policies. The previous section illustrates the tension between central and local governments after the tax reform. Notably, this tension is also reflected in the mismatch between financial and administrative powers in the management of local affairs. The new expenditure responsibilities, especially for social affairs and security, are primarily borne by local governments. They must gain additional economic benefits by promoting investment, tourism, trans-border trade, and construction of local infrastructure to support spending on social security (Caulfield 2006; Fan 2015). In recent years, under the supervision of the central government, Yunnan's provincial government has worked to address the problems of poverty (He 2017) and illegal trade (Rippa and Yang 2017), and to maintain the stability of border communities. Indeed, alleviating poverty has become an assessment target for the promotion of local authorities. This exemplifies how local governments have strong incentives to reconcile the CMEC with local development plans and social policies.

Although the CMEC SEZ project is led by the central governments of China and Myanmar, local governments in both countries are actively involved in this cross-regional economic cooperation. Initially, the project also demonstrated a form of transnational economic cooperation coordinated by the two countries' state capitals: SOEs were initially the main force behind the CMEC SEZ project and the channeling of the state capital involved. At a macro level, CMEC SEZs are embedded in several political and economic contexts. The central government sees and themes the CMEC SEZ project as driving market and industry connectivity.⁴ Notably, the Chinese SOE CITIC Group has been actively investing in Southeast Asia since the mid-2000s and signed a Memorandum of Understanding with the Myanmar government in 2009 regarding cooperation in the Kyaukphyu Economic and Technological Development Zone, deep-water port, and railway project.⁵ At a meso and micro level, in Yunnan, which is directly connected to Myanmar geoeconomically, the provincial government has incentives to operationalize and re-theme the CMEC plan. Involvement in the central government's "go global" strategy is significant to local governments.

Generally, in the eyes of the central government, subnational governments in China have had little say in promoting international intergovernmental cooperation. Many central state-owned enterprises (CSOEs) have even bypassed the Yunnan government and pushed directly into cross-border business in the area.⁶ However, in recent projects, including the CMEC, local governments have strategically reinvented their roles in policy practice. The Yunnan government's re-theming of the CMEC is exemplary of this. The BRI-related CMEC SEZs involved here can be conceptualized as two policy assemblages.

The first policy assemblage arises from how the central government mobilizes CSOEs and local governments to jointly implement CMEC policies. Internationally, the central government has actively sought cooperation with the Myanmar government. For the central government, CSOEs are pioneers traveling towards CMEC policy goals at the national and international level. Domestically, Chinese central government and local governments are jointly responsible for the infrastructure of the free trade zones and SEZs, and for facilitating the entry of CSOEs and other multinational economic networks into them. The role of local governments is treated as passive, and they usually have no room to negotiate with CSOEs, leaving them craving investment in the CMEC SEZ project even further. This dilemma foregrounds the importance of the second assemblage.

The main actors in the second policy assemblage are local governments and local economic actors and social associations. In addition to meeting the CMEC policy objectives set by the central

government, local governments have to follow policies to maintain local socio-economic stability, especially in border areas; they have to manage border security, relieve poverty in rural areas, and facilitate industrial upgrading while promoting general economic growth. I call this second assemblage the “local government-enterprise nexus.” In the next section, I will use empirical data to articulate how this local government-enterprise nexus plays out in the CMEC SEZ collaborative project.

Crafting zones in the CMEC: Strategic local governments in tran-regional cooperation

The local governments referred to in this article are the provincial, prefecture, and city-level governments. Although there is tension between them, their political and economic interests are united in the policies emanating from the central government. In this section, I use two case studies to illustrate and analyze how local government-enterprise nexus in Yunnan construct new roads and zones and embed themselves in the construction of central government-led ones. The first case study shows how provincial governments have transformed the SEZ project into a means of upgrading industries and joined in the national industrial reforms focused on accelerating an innovation-driven economy. The second case reveals the ambitions of prefecture and city-level governments to translate the CMEC SEZ into a series of projects that promote industrial policy as well as local development and demonstrates that the local government-enterprise nexus is not a passive institutional system. These two cases exemplify Yunnan provincial, prefecture, and city-level governments’ ambitions and strategies in dealing with policy initiatives driven by the central government-led BRI.

Zoning the economic future via social development schemes

Since the tender for the construction of Kyaukpyu port went to a Chinese-funded consortium in 2015, there has been opposition from inside and outside Myanmar, especially from certain dissidents, scholars ([Calinoff and Gordon 2020](#)), and NGOs in the country. The local governments influence the entry of CSOEs into long-standing but stalled transitional cooperation programs at each step of the process in the port project. The re-embedding of local governments in regional cooperation reveals the vulnerability of the state capitalist system dominated by the national government and central enterprises in transnational cooperation projects.

How did the local government embed itself into this economic zone plan originally dominated by CSOEs? Initially, Yunnan’s local government was not an important partner in the CMEC SEZ. According to an informant: “Central enterprises generally do not need to look at the face of local government when they do their projects.”⁷ This is similar to what is described in [Jones and Zou’s \(2017\)](#) article about China Power Investment Corporation’s (CPIC) disregard for the government during the Myitsone hydropower project in Myanmar. However, contrary to what Jones and Zou assert about the tension between central enterprises and local governments, I argue that this tension is actually between the central and local levels: central enterprises, which represent national government’s interests, are directly subject to the central State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and the State Council for the allocation of funds and promotion of officials; they do not need to act in the interests of local governments. The local governments, on the other hand, have more diverse relations, and in the face of resistance to CITIC’s deep-water port project, we have seen new collaborative projects emerge in the CMEC SEZ framework.

In 2019, the Yunnan provincial government entered into the CMEC project. On September 9, a cooperative project to train young people in technical skills, assisted by the Yunnan provincial government, was held in Rakhine State's Kyaukpyu township. The training program was organized by provincial SOE Yunnan Construction Investment Group and a local government-supported NGO, the NLD Education Network Foundation.⁸ The training program was divided into two classes: an electrician skills class and an English class. Local people in Kyaukphyu elected twenty people to form a project management committee, which was responsible for preliminary preparation, communication and consultation, acceptance of applications, selection of trainees, and implementation management.⁹ The program aimed to train more people to adapt to China–Myanmar cooperation.

Additionally, the local government and local SOEs and NGOs re-tooled industrial policy as border social development policy when they joined the CMEC project. Yunnan Construction Investment Group, a local SOE,¹⁰ suggested CITIC run the above training program to create backup labor for the construction of the deep-water port and the industrial park project, and also to integrate Kyaukpyu youths into these cooperative enterprises, so that they would no longer have to leave their hometown to work elsewhere.¹¹ The training program went smoothly. It was welcomed by the youth of Myanmar. Nearly 150 young people applied. This was the fourth public welfare project carried out by CITIC in Myanmar, but the first in conjunction with Yunnan's provincial government.

However, Yunnan's provincial government was already running many youth and entrepreneurship training programs in Myanmar. These programs are generally used by provincial governments to create model provincial cooperation projects and demonstrate their capacity to the central government. Most are undertaken by the local financial sector in Yunnan—as support for regional construction in Myanmar and in order to maintain relations between local governments and border regions on each side.¹² Local government sectors have been actively packaging these cooperative projects into the CMEC. By supporting central government's actions but, more importantly, by creating roles for themselves, local governments can receive more financial support from the CMEC framework, which can be used to stabilize the existing system of local cooperative projects. Mr Lu, a 47-year-old official working for a prefecture-level government in Dehong, complained about the busy work routine of local government:

We have so little power to do things, but so many things waiting us to do. The local community not only has to pull economic development, attract projects, and alleviate poverty as a policy mandate from the central (government), but also has to deal with border stability issues. We have to borrow human resources from other places, such as social associations, and other local governments in Yunnan. Now, because the functions of the economic zones have expanded in the BRI, local government staff have to do economic zone management work again, and one person usually wears several hats.

In this sense, local governments have been driven to accelerate the development of small- and medium-sized private enterprises (SMEs) and seek the cooperation of local socio-economic associations. Local SMEs and transnational traders thus have significant room to negotiate at the local level, and they seek various opportunities to “go global,” just like CSOs.

Local technical colleges, universities, social associations, language schools, and research institutions from Yunnan and Myanmar, too, see opportunities in the CMEC training project. Yunnan University and the Confucius Classroom in Fuqing,¹³ Myanmar, have drawn up a plan to establish the Myanmar–China Institute of Vocational and Technical Studies. Mandalay local authorities will

provide land for constructing the institute. The Myanmar-China Institute of Vocational Technology of Yunnan University is expected to become a model for vocational training and academic education outside of Myanmar.¹⁴ China's central government also saw a policy opportunity in local cross-border solidarity activities, which is why it actively included "poverty reduction cooperation" in the BRI framework at the end of 2020.¹⁵ Notably, these local cross-border actors are exemplary of "local government-enterprise nexus." Local government's rebranding and repackaging of the CMEC-SEZ project created new credibility among local commercial and educational sectors. The local government has succeeded in organizing local business groups, particularly the Myanmar Chinese business community, which has long been involved in cross-border transactions and is familiar with the socio-economic situations in China and Myanmar, and has joined forces with local research institutions with the capacity to provide education and training.

The abovementioned youth development project, grafted onto the framework of economic cooperation and based on the recommendations of a university think tank, was likely modeled on Japan's Official Development Aid (ODA) to Myanmar. However, the crux of the matter is the initiative of the local government: the provincial government in Yunnan is using development as an institutional weapon to find a voice in amongst the more powerful CSOEs. The training program illustrates the failure of internationalization efforts centered around central SOEs and central government. CITIC's original program, which represented the interests of the national government, did not successfully mobilize the economic and social networks that already existed at the local level and was therefore not well implemented. In these ways, the role of local government-enterprises nexus in the internationalization project is exemplified by the local government in Yunnan. What this case study suggests for our understanding of transnational cooperation is that (1) local-to-local cooperation is easier to achieve by using longstanding links with the local government and the Chinese community, and (2) local governments have incentives to go global, such as developing their local societies and economies.

Zoning ports in Dehong Dai and Jingpo autonomous prefecture

Provincial governments have gained direct access to central SOEs' projects, but local prefectural and city-level governments have also taken initiative to *create* projects linked with the CMEC framework, industrial development policies, and social policies. Local governments, in the Yunnan border area, have used local bonds and spatial planning policies to shape regional industrial agglomeration, aggregation, and zoning policies that were previously dominated by the central government to support local economic and social interests.

The Dehong prefectural government, for example, has used industrial upgrading policy and discourse to reappropriate BRI policy resources and reshape the BRI's operability at the local level. Dehong Prefecture is located in the western part of Yunnan Province. It shares a border with Kachin State and Shan State in Myanmar (Figure 2). Dehong is one of the eight minority autonomous prefectures in Yunnan. Ethnic minorities account for 45.6% of its total population. Historically, Dehong was one of the most active market towns on China's southwestern border (Dean 2005). During the early years of Reform and Opening-up, small-scale trade activities emerged and were credited with border cities' prosperity (Qian and Tang 2019). Dehong is the entry and exit point for the China-Myanmar oil and gas pipeline. The state has two national Category-1 ports, Ruili (the red dot on the map) and Wanding, as well as two national Category-2 ports.¹⁶ Several cities near the border in Dehong, such as Ruili, are highly reliant on cross-border trade.

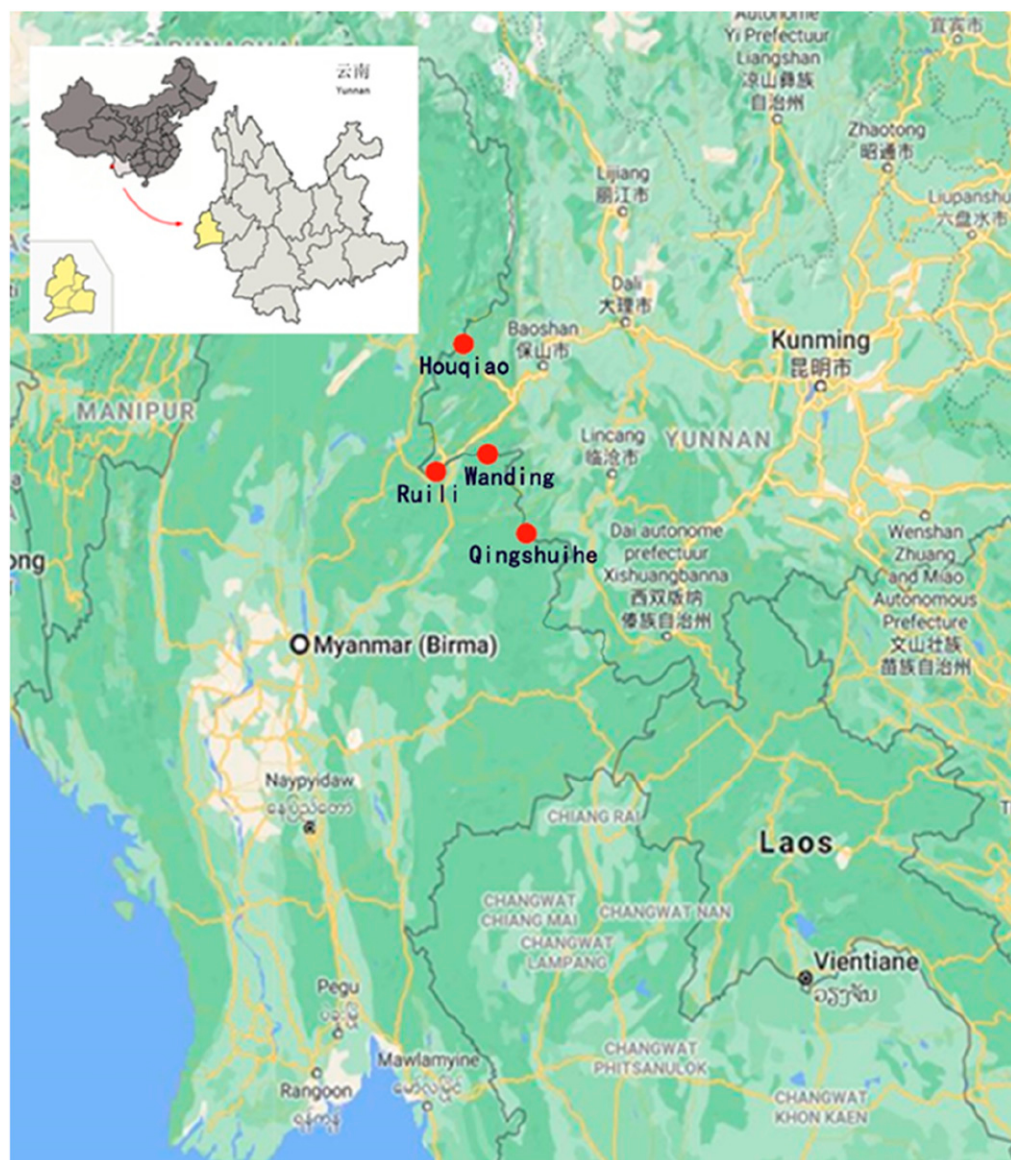


Figure 2. The Map of Dehong Prefecture in Yunnan and the Trade Ports in the Border Area. (Edited in Google map of Yunnan and Myanmar. Access June 12, 2021).

The appropriation of BRI policy resources by local governments addresses two local development dilemmas. First, local governments are under pressure to upgrade their industries. The BRI, as a policy mandated from central government, gives Chinese local governments significant institutional leverage. For instance, as also mentioned by Mr. Lu, the official working in Dehong, to upgrade and transform their industries, local governments have renovated innovation parks in existing border economic zones and branded them as cross-border industrial parks supported by

electronic information technology. In addition to the pressure to upgrade industries, local governments are faced with the problem of local debt.

Local governments have undertaken the following initiatives to address the twin problems of industrial upgrading and local fiscal constraints. Firstly, they have increased their revenue by selling land-use rights for the creation of SEZs, economic cooperation zones, and BRI industrial parks (Feng 2013). Since 2016, prefecture- and city-level governments from border areas, such as Lincang and Ruili, have been actively building SEZs. One policy innovation adopted by Chinese border prefecture and city governments to rejuvenate small-scale exchange-markets and facilitate trade by local entrepreneurs is the Border Trade Zone.¹⁷ Thanks to China becoming the largest global manufacturing hub and market, its border cities have become centers of cross-border trade (Song et al. 2020). In Dehong, China imports mainly natural resources and agricultural products from Myanmar, while exporting mainly industrial products, such as machinery, clothing, and consumer electronics across the border. Dehong's economic development is dominated by the primary sector. This is not good news for the Dehong government, which wants to "internationalize" and take its place on the list of Chinese border cities.

As a result, the Dehong government has renewed a series of policies to upgrade its industries. In the context of political economy, industrial upgrading implies the substitution of industries and accelerates domestic techno-innovation to climb in the global value chain (Gereffi 1999). However, the aim of the Dehong government's industrial upgrading is not to suppress the traditional trade sector, especially not the long-established cross-border logistical and ethnic networks within that sector. The local government has an important policy consideration: how can it bring the interests of established business groups into the practice of industrial upgrading? With this in mind, the local government hopes to create industrial regeneration projects that will at least increase investment opportunities for traditional local market actors.¹⁸ Mrs Xin, a government official in Lincang, a border city between China and Myanmar, explained: "Lincang city, as a border city, has been maintaining trade with Myanmar for a long time, but since the BRI-related policies came up, the (local) government has strengthened its infrastructural investment in zones and supply chains, taking advantage of this policy force to make trade bigger and build up the border industrial area to attract more investments." As analyzed in later sections, BRI-driven industrial policy does trigger transformation in border economies and societies between Yunnan and Myanmar, but this transformation is operationalized through local governments' agency; it is this upon which the policy assemblage is realized.

As mentioned, in addition to pressure to upgrade industries, local governments are faced with local debt. In addition to land finance, the sale of local bonds can relieve financial pressure and drive investment. Since 2015, Yunnan provincial governments at all levels have issued a total of 287.161 billion RMB in special local government bonds.¹⁹ However, the central state limits how many development bonds local governments can issue for infrastructure projects. In order to control the risk of local government debt issuance, the central government requires them to reduce government leverage in general.²⁰ However, under the CMEC framework, local governments are tacitly allowed to issue more "special bonds."²¹ Based on a Report on the Implementation of the Local Budget for 2020 and the Draft of Local Budget for 2021 in Yunnan Province, I found that the ratio of bonds to CMEC supporting local special expenditures was 6:1, far exceeding the ratio set out in the State Council's Government Work Report. As stated in the report, the local government strove to:

arrange 500 million yuan to support the stabilization of foreign trade and foreign investment and enhance the level of customs clearance. Further, the local government continues to arrange 500 million yuan to support cross-border economic zones, key development and opening-up pilot zones and other accelerated construction... Last, the local government will arrange 600 million yuan and actively seek special bond funds of 3 billion yuan from the central government to support the free trade zone.²²

The Dehong government has thus taken initiative to combine local industrial upgrading policies with the CMEC SEZ project by promoting the construction of and investment in several cross-border e-commerce industrial parks. On August 30, 2019, the Dehong government inaugurated the Dehong Pilot Free Trade Zone, which includes the main urban area of Ruili city and the existing Jiegao Border Trade Zone. It focuses on the development of cross-border e-commerce platforms, finance, and other technology-driven industries. According to an informant, Dehong's aims in this were twofold: the first was to embrace innovative policies, work with cross-regional e-commerce platforms, and then use these platforms to promote and stabilize pre-existing bilateral trade for the benefit of entrepreneurs from Myanmar and Yunnan; the second was to use the new zone to attract investment.²³ Under the incentives of the CMEC, many investors from Myanmar, Sichuan, Guangdong, Shenzhen, and Hong Kong moved into the area before and after the COVID-19 lockdown in China.²⁴

The Dehong government's initiative was quickly adopted by other border governments. Since the beginning of 2021, under the Framework of Strategic Cooperation between Lincang and Kunming, the Lincang Border Cooperation Zone and the Kunming Area of the Pilot Free Trade Zone have formed a cooperative plan to develop cross-border e-commerce activities. Lincang Border Cooperation Zone has attempted to strengthen cooperation between domestic cross-border e-commerce enterprises and domestic logistics enterprises in China and Myanmar at the Mengding Qingshuihe Port.²⁵ The Lincang government's imitation of Dehong's policy is rooted in a sense of competition among local governments in China (Chen and Chulu, 2022). One explanation for this competitive behavior offered by scholars in China studies is that official governance in political life faces problems of information asymmetry and huge oversight costs; especially in China's authoritarian regime, local governments face mainly vertical oversight from higher levels of government and tournament models emerge (Zhou 2007). These models can lead local governments to emulate the governing style of others at the same level, seeking non-vertical political and economic resources and raising extra revenue. For example, partnering with private enterprises for infrastructure development and investment has become a common strategy (Wu 2007; Xing et al., 2018). This can be used as a case study to explain why state capitalism diminished in China's BRI. To some extent, the BRI, led by the central government, large businesses, and central enterprises, is seen by local governments as an opportunity to solve local woes. This also illustrates the impossibility of top-down economic governance. The tension between central and local relations has always been present and will remain with the concrete implementation of the BRI.

If the literature on state capitalism reveals a set of state and corporate complicities in economic development projects, the case of the CMEC SEZ highlights policy practices that deviate from the central government's current intentions around cross-border regional economic cooperation, because the interests of central and local governments are not completely aligned. Moreover, there is little discussion of the links and tensions between the different policy schemes in most studies on state capitalism. National medium- and long-term industrial and trade policies are usually implemented by the state council and put into practice by the various levels of government. Studies on state capitalism in China thus consider SOEs the main players in national industrial policy. However, in China, the developmental program has not only led to the practice of formulating and implementing industrial policies at all levels of government, from central to local, but has also led local governments to constantly update their social and border management in order to adapt to the industrial policies of new developmental plans and pursue socio-economic stability (Di Tommaso and Rubini 2013).

Conclusion and discussion

To conclude, theoretically, this article focuses on the critical political economy of policy and attempts to develop a theoretical framework and constructivist perspective for discussing the mutual-construction of concepts, visions, industrial policy, regional development policy, and local networks of socio-economic relations in the BRI-driven CMEC project. The economic corridor is an evolving regional concept, which historians first articulated, before it entered national discourse and was pushed by international organizations such as the Asian Development Bank, as a corridor-oriented development model (Chen 2018). In a sense, the BRI, as branded by the central state and enacted in the CMEC SEZs, draws on this preexisting concept. The first policy practice is the corridor on its current path. The main leaders are the central government, provincial governments, and SOEs. It links routes and zones. The second policy practice consists of previously accumulated border cooperation networks that have repackaged local interests into a corridor. This formation of one belt with, in practice, two policy practices can be explained by two plausible factors: firstly, local governments in China endeavor to sustain their own interests in the name of the BRI; secondly, the interests of the actors involved in the BRI are not uniform. This article demonstrates the diverse ways local governments can practice the policies of the state-led CMEC SEZ project to their own ends. As shown, the CMEC is a transnational project that links multiple levels of government, countries, layers of policies, and socio-economic networks through which zones and border corridors are shaped. Approaching this as a policy assemblage helps illustrate the mobility of policies in the CMEC.

Previous literature on the role of industrial policy in China's economic development and internationalization has emphasized how central government and state-owned enterprises advance the implementation of policy and reshape state capitalism. However, drawing on the theoretical insights of critical political economy and China Studies, I argue that the normative framework of state capitalism in BRI studies ignores the complex governance arrangements conducted by local authorities, enterprises, developers, and citizens (Haarstad, 2016). The case of China reveals that the discourse around state capitalism may have produced a simplistic perception of the complexities of the state. In practice, the state is broken down into multiple provincial relationships and central institutions, as well as tensions between commercial markets and political interests. This article further illustrates how the heterogeneous tensions among center-territory and government-enterprise relationships have been exploited by local governments to further the interests of local government-enterprise nexus in CMEC SEZ collaboration.

At this point, I reiterate my arguments based on the empirical findings and analysis in the main body of this article. I argue that transnational economic cooperation implies a distribution of limited policy resources, with local governments having a competitive incentive to work towards the central government's policy objectives. The tension between central and local state is the key factor in this policy practice. The policy assemblages of the CMEC show that the interests of the central government and local governments are aligned under the BRI policy scheme in a way that we should contextualize in relation to the tension between central and local government. The central government is promoting the BRI to expand the space for domestic capital and enterprises to achieve outward-oriented development. Meanwhile, local governments have to mobilize existing industrial and developmental policies and other political resources to strengthen their grasp over finance and enterprises, aiming to achieve a number of local developmental goals, such as poverty alleviation and industrial upgrading, as well as their most important political and economic goal of growth. This dynamic has given rise not only to an industrial system but also to co-ordination between different

policy schemes and intentions. This story is representative and revealing regarding BRI-driven overseas economic zones in the following ways: 1) centralized state- and megacorporation-led policy actions that fail to balance local interests will encounter distortions from local authorities, enterprises, and governments. This further encourages forthcoming research to think about the “power of the state” and what the “state” is in the specific process of constructing economic zones. The state is not a collection of unlimited powers; 2) For host country governments, how they seek policy space in the tension between the central and local governments in China will likely determine the direction and outcome of future cooperation. These two case studies of the CMEC can, I hope, contribute to our understanding of the region-wide implications of the BRI’s adoption in other emerging economies and to development studies overall.

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10. Notably, although local SOEs are under the control of the local SASAC, central enterprises are under the control of the central SASAC. However, the local SASAC is not subordinate to the central SASAC. The

central SASAC is subordinate to the State Council, and the local SASAC is managed by the local government.

11. Online interview, employee from CITIC. June 3rd, 2021.
12. Online Interview, official from Yunnan provincial government via WeChat. May 26th, 2021.
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17. The policy further prescribes that transactions made in Jiegao and worth no more than 8000 RMB (\$121 USD) are exempt from tariffs even beyond the zone. The Shan State of Myanmar has echoed China by designating an area and launching an equivalent tariff exemption policy. “As a result, small enterprises and firms specialising in trade have flourished and concentrated in Ruili, not to mention vibrant trading activities conducted on an individual basis” (Qian and Tang 2019).
18. One interviewee told me that the goal of building an economic zone in Yunnan now is the integration of industries and cities (*chancheng ronghe*). The goal is not only industrial upgrading but also industrial development and urban planning (Interview, official in Dehong via WeChat. May 21, 2021). A 2021 government report also suggests that the government is “doing its utmost to stabilise foreign trade fundamentals, fully implement measures to keep people under control and goods flowing smoothly, and keep port logistics uninterrupted while upgrading industries.” (Dehong Prefecture Government Work Report, 2021), access May 21, 2021. https://district.ce.cn/newarea/roll/202103/08/t20210308_36365661.shtml.
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