

Public-Private Partnerships in Urban Economic Development
and Prospects of Their Application in China

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Presented at the International Conference on
“Transitions in Public Administration and Governance”
Beijing, June 15-19, 2002

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1. Introduction

The term “public-private partnerships” has frequently appeared in the media and in the economic development literature in recent years. As an institutional approach, however, public-private partnerships have a long history in local economic development policy (Beauregard, 1998; Ward, 1990).² With the structural change of the economy in the developed countries and the development of economic globalization in the last two decades, urban regions³ have been forced to use a wide variety of incentives to compete for mobile capital and high quality labor (McCarthy, 2000; Neilson, 1999; Poole *et al*, 1999). In the United States, urban economic development activities have increased since the 1980s; at the same time, the composition and focus of public-private partnerships in urban economic development also increased (Walzer and York, 1998). Public-private partnerships have also developed in other countries (Batley, 1996; Chandler, 1998; Friedrichs, 1998; Pierre, 1998). It is of great interest for both academics and practitioners to investigate the general trends and causes of public-private partnerships in urban economic development. However, what constitutes a public-private partnership is not clear in the literature. Most recently, it is stated that “[w]hile partnership’s potential is promising, still lacking is a shared understanding of and language for what partnership really means, and guidelines for operationalizing it.” (Brinkerhoff, 2001) Further, there is not a useful way for categorizing public-private partnerships, which may lead to difficulty in theoretical analysis and practical use of this institutional approach to urban economic development.

An exploration of a general framework of public-private partnerships helps to improve understanding of public-private partnerships. Certainly, it is important to recognize that public-private partnerships are not the same across countries, even within the developed countries, in their formation and operation. For example, there are differences in public-private partnerships between the United States and European countries, especially continental European countries, and the public-private partnerships in the U.K. are different from those in continental Europe (Keating, 1998; Savitch, 1998). These differences indicate that national political, socio-economic, cultural, and institutional contexts should be taken into account in analyzing public-private partnerships (see 4.2). However, it is also important to understand international trends and commonalities to obtain a thorough understanding of public-private partnerships. “Institutional differences that may seem extremely important when viewed through a national lens tend to disappear when the panorama becomes international.” (Harding, 1998, p. 89) An overemphasis of national contexts will not improve but distort the understanding of public-private partnerships. It is necessary to provide a general framework for the analysis of public-private partnerships. Such a framework should serve

as a tool of applying public-private partnerships in countries that vary greatly in culture, and socio-economic and political systems. Specially, it is important to explore the potentials of public-private partnerships in emerging market economies.

China has made tremendous success in its economic reform in the last two decades. In the process of decentralization and the development of market economy, the institutional environment has been largely changed. Local governments have more responsibilities in urban economic development while funding from central government is greatly reduced. With the amendment of the Constitution in 1988 and in 1999, the presence of private sector in Chinese economy has been legalized. Private sector has become a vital component in the economy while the dominance of state-owned enterprises (SOEs) has been shrinking over the reform period. The rise and rapid growth of private sector suggests that it will have an increasing role in urban economic development. Therefore, it is meaningful to discuss the prospects of public-private partnerships in the development of Chinese cities.

The rest of this paper is presented in six parts. Following the introduction, the definitions of public-private partnership are discussed in Part 2. Then, in part 3 and Part 4 the trends and forces driving the development of public-private partnerships in urban economic development are analyzed respectively. In Part 5, categorization of public-private partnerships in urban economic development is examined. In Part 6, the prospects of public-private partnerships in China are discussed. The conclusions are provided in the final part of the paper.

2. What Is A Public-Private Partnership in the Context of Urban Economic Development?

2.1 Urban Economic Development

Prior to a discussion on public-private partnerships in urban economic development, it is important to be clear on what is meant by urban economic development. The fact is that there is no single clear-cut definition of economic development *per se*. Wolman and Spitzley (1996, p.115, p.116) examine the literature on urban economic development and conclude that it usually fails to define the term economic development *per se* and “encompasses a wide variety of activities and policies that sometimes appear to have little relation to each other.” Though they define the term *economic development* as “an increase in the economic well-being of area residents, usually manifested by positive changes in the level and distribution of area employment and per capita income”, due to the tremendous diversity of activities covered in the economic development literature, in their review article they have to “cast a relatively broad net over the literature”.

The diversity of and the difficulty in defining economic development is also shown by the definition of economic development given by the Economic Development Administration of the U.S. Department of Commerce.

Economic development is fundamentally about enhancing the factors of productive activity - land, labor, capital, and technology - of a national, state or local economy. By using its resources and powers to reduce the risks and costs which could prohibit investment, the public sector often has been responsible for setting the stage for employment-generating investment by the private sector (Economic Development Administration, 2000).

While this definition suggests that it is well-defined, but actually it covers a broad range of activities. Following this definition, it is stated that economic development strategies and tools are to enhance a community's labor force, infrastructure, business and community facilities, environment (physical, psychological, cultural, and entrepreneurial), economic structure, and institutional capacity to support economic development and growth. Also, equity, sustainability, and business climate⁴ are concerns of economic developers.

In brief, economic development covers a wide range of activities. Public-private partnerships can be established in all of these activities. Therefore, the following discussion is not limited to public-private partnerships in any specific activities of urban economic development.

2.2 Public-Private Partnerships in Urban Economic Development

A partnership means cooperation for a specific purpose or purposes between two or more parties. It requires commitments from all the parties involved to achieve common goals. Following this basic definition, a public-private partnership in urban economic development can be defined as an arrangement between the public and private sectors for provision of urban services and promotion of urban economic development. However, there are a number of misconceptions about the nature of public-private partnerships. Nine of the most common misconceptions are detailed in a guidebook for local government issued by the government of British Columbia, Canada (Ministry of Municipal Affairs, 1999). These misconceptions are as follows:

- (1) Public private partnerships are the same as privatization;
- (2) By entering into a public private partnership, local government loses control over the provision of services;
- (3) Public private partnerships apply only to infrastructure projects;
- (4) The principal reason for local governments entering into public private partnerships is to avoid debt;
- (5) The quality of service will decline under public private partnerships;
- (6) Local government staff will lose under public private partnerships;
- (7) The cost of service will increase to pay for the private partner's profit;
- (8) Local government can finance the cost of services at a lower cost than the private sector;
- (9) There are only two partners in a public private partnership.

(Ministry of Municipal Affairs, the Government of British Columbia, Canada, 1999).

In essence, these misconceptions reflect confusions about the participants and their roles, the type of activities, incentives for partnerships, efficiency and effectiveness, employment security, and the quality of services.

It is important to clarify the definition of public-private partnership because the misconceptions are likely to impede the fruitful use of public-private partnerships in urban economic development. The core issue is to understand who the participants in a public-private partnership are. Some misconceptions are simply due to a narrow understanding of the "public" and "private" components. Usually, the "public" sector is only regarded as a synonym for government. In the guidebook for local economic development issued by the government of British Columbia, Canada, public-private partnerships are defined as "arrangements between *government* and *private sector entities* for the purpose of providing public infrastructure, community facilities and related services." (italics added

by the author) At the same time, the “private” sector is likely to be misunderstood as formal private firms only. A public-private partnership may consist of not only government and formal private firms but also other informal “public” entities such as a self-governed community and user groups and informal “private” entities such as various non-government organizations (NGOs), business associations and nonprofit organizations.

The multiplicity and diverse composition of public-private partnerships has been recognized by both academics and professionals. Batley (1996, p.731) indicates that “the ‘private sector’ includes not only formal private firms but also informal enterprises and non-governmental organizations” and that “the ‘public sector’ may include government departments, agencies at different levels of government and, perhaps also, more informal institutions of self-governance by communities and user groups.” In a publication from the Hubert H. Humphrey Institute of Public Affairs, it is stated that “[e]conomic development agencies need to work closely with other partners, such as businesses, nonprofits, and community organizations, to develop a path toward the future.” (Hubert H. Humphrey Institute of Public Affairs, 2000, p.12) It is further indicated that “[i]ncreasingly, economic development professionals are recognizing that partnerships among a range of organizations are critical for a successful economic development strategy.”

In addition to the composition of participants, the definition of public-private partnership also encompasses other attributes such as the type and range of activities, resource commitment, the roles of participants, and time scale. McQuaid (1994, p.5) summarizes the common characteristics of partnerships defined by policy makers as:

- (1) The voluntary nature of the relationships;
- (2) The wide range of participants, ranging from the community to the private sector..., local government, national government departments and quasi-autonomous non-governmental organizations;
- (3) The need for an agreed strategy;
- (4) The long time scale;
- (5) Agreed contributions of resources (presumably in a variety of forms) to the process.

He also indicates that the definition of partnership by the European Commission is characterized with the function of “both consultation and action at a local level”.

In practice, what is counted as a partnership is not clearcut but depends on how researchers define the term for their own purposes. Walzer and York (1998, p.48) argue that the term “partnership” is vague because it is usually claimed by local officials for many local actions and covers a broad variety of activities. Thus, they indicate that the term “partnership” *per se* requires a clear identification for their study about the trends of public-private partnerships in U.S. urban regions. For the purpose of their research, public-private partnerships were defined as “*formal partnerships in which both the city and the private agency have a substantial long-term financial interest and for which each business provides stated benefits. These projects are usually formalized through an agreement and are more than a tax-expenditure concession that applies to any incoming business*” (original italics, p.48). Walzer and York are aware that, under this definition, some valid partnerships may be excluded. However, they indicate that those included have at least three “basic ingredients”. They are “long-term agreements between participants”, “an established procedure for managing the partnership” and agreement on “economic development outcomes expected by both participants”.

In summary, there are a variety of definitions of public-private partnerships. The review of these definitions shows that they are not necessarily conflicting yet most if not all are incomplete. A synthesis of these definitions suggests that the essence of a public-private partnership includes at least the following attributes: involvement of multiple public and private participants, agreement on objectives and strategies, mutual benefits, essential resource commitment, and variety of activities. In addition, the geographic and time scale of a public-private partnership depends on its objective and the activity involved. The vagueness of the term “partnership” requires a clear identification of what a partnership is when conducting a public-private partnership research.

3. The Trends of Public-Private Partnership Since the 1980s

The public-private partnership concept has deep roots in urban economic development in the United States. It has also developed in both other developed and the developing countries becoming a worldwide phenomenon in urban economic development in the last two decades. Internationally, it has been recognized that public-private partnerships are vital for building overall competitiveness of urban regions (World Competitive Cities Congress, 2000) and for solving urban environmental problems (UNDP, 2000).

Based on their definition (see above), Walzer and York (1998) find that public-private partnerships have expanded in U.S. urban regions since the 1980s. Their base sample is 344 urban regions that reported public-private partnerships for economic development via mail surveys conducted in 1994 by the International City and County Management Association. In a follow-up with these urban regions in 1996, 194 responded accounting for 56.4 percent of the 344 urban regions. A background comparison between the urban regions reporting partnerships and those not reporting shows that “partnerships cities are substantially larger” and less wealthy and have a higher poverty rate. However, “no significant differences are found between the two city types in unemployment rate.” This suggests that public-private partnerships are tool of larger and poorer urban regions in economic development.

Walzer and York reach the following conclusions about the trends of public-private partnerships in U.S. urban regions. (1) Public-private partnerships are viewed by the survey respondents as an “integral component” of their local economic development initiatives. Nearly four-fifths rated partnerships as “important” and “very important”. Also, “the number of partnerships had increased during the previous five years.” (2) The investment by the city government is “essential to lasting economic development partnerships”. There are a variety of investment vehicles for urban regions such as direct financial investment, loan from urban fund, technical assistance by urban employees, land writedowns, and Community Development Block Grant (CDBG) projects involving infrastructure. Land and infrastructure continued to be important in expanding the industrial and commercial base of urban regions. (3) Most urban regions (79.8 percent) reported the presence of a performance monitoring arrangement such as periodic reports by businesses and annual meetings with business leaders. (4) Local governments take public-private partnership seriously. Based on these findings and the tasks facing urban regions regarding tax base building and job creation and retention, Walzer and York conclude that public-private partnerships in U.S. urban regions will continue to expand in the future.

Outside the U.S., public-private partnerships have developed in other developed countries (Chandler, 1998; Friedrichs, 1998; Law, 1988; Pierre, 1998) and in the developing countries across Latin America, Africa and Asia (Batley, 1996). In Britain, public-private partnerships emerged as a new institutional approach to urban economic development in the late 1980s after the Conservative government's privatization strategy failed to achieve expected success. A new program called City Challenge was created to "[invite] local authorities to put forward schemes for economic regeneration in partnership with the local business community" (Chandler, 1998, p.158). Later, this program, along with other smaller programs for distributing development funds, was consolidated into a single urban regeneration budget (SRB) to bid for funds. "By the mid-1990s, the government established a clear message to all local authorities that economic development that was to receive significant public funds had to be secured through partnerships with the private sector." (Chandler, 1998, p.158)

Through an analysis of urban revitalization in South Yorkshire, however, Chandler (1998) indicates that, in essence, the so-called public-private partnership was not a partnership, but just a mechanism of distributing public funds to local authorities by showing sufficient support from local business community. Thus, he concludes that public-private partnerships are largely unsuccessful in Britain in terms of building business-led urban growth partnerships because government schemes like City Challenge "have not so far led to the creation of self-supporting partnerships in which the private sector provides much of the expertise and funding to establish growth." (p.174) He further argues that "cooperative organizations are generally marriages of convenience in order to leverage central government grants that would not be forthcoming without demonstration of a partnership ethos within the applicants' declining local economies." (p. 174)

Nevertheless, the UK Deputy Prime Minister John Prescott provides recent evidence of financial involvement by the private sector in partnerships for urban economic development in his speech for a seminar on public private partnerships (Prescott, 2000). He presents a telecommunication company called Kingston Communications as a successful model of public-private partnership. The company was a government corporation owned by the City Council of Hull before entering into partnership with the private sector. It was Britain's first digital telephone service and had part-ownership of a satellite. In recognition of the limited growth potential due to public sector capital borrowing constraints and short-term spending pressures, the company entered into partnership with the private sector and went public later while the local council still holds 45% of the shares of the company. It became a FTSE top 100 company 10 months after the formation of public-private partnership. Also, Prescott indicates the success of the public-private partnership in Docklands Light Railway in London and points out how London Underground and National Air Traffic Services will benefit from public-private partnerships by absorbing private financing. Based on the experiences of successful partnerships, he strongly argues that public-private partnerships are a "credible alternative to privatizations" so that, unlike in the case of privatization, the public sector can "share in the benefits of growing businesses or the massive investment they made in these industries." His speech shows that British government will continue to promote public-private partnerships in which the private sector's investment and skills can be involved.

In Germany, efforts to introduce public-private partnerships have been made in recent years. Like most European countries, Germany has a "tradition of state and urban

planning to restrict planning authority to government bodies and keep them free from external lobbying.” (Friedrichs, 1998, p.189) Though they were a new element in German urban governance and planning, public-private partnerships emerged in urban revitalization efforts. According to a survey by Kruzewicz (1993, p.27, p.29), 103 out of 235 urban regions in North-Rhine-Westphalia reported the presence of public-private partnerships and an additional 58 urban regions intended to develop them. Friedrichs (1998) addresses the major element of public-private partnerships in urban revitalization in Germany through the analysis of projects in several urban regions. They include:

- (1) Urban regions have to seek private finance for urban redevelopment because of financial constraints on government;
- (2) Urban regions exert control over important issues such as the planning, land uses, sales price, and rents in a land development project through their majority in the partnerships;
- (3) Urban regions benefit from the skills and expertise of private sector in market competition;
- (4) Urban regions expect to improve the efficiency and cooperation of the involved government departments with the involvement of private sector.

Public-private partnerships have also emerged in the developing countries. Batley (1996) provides examples of public-private partnerships in urban service provision in six developing countries including India, Malaysia, Brazil, Mexico, Zimbabwe, and Uganda. Urban services with strong private involvement range from primary education to waste collection. He finds that “[p]rivate involvement occurs not only in planned ways, but also as governments pragmatically respond to force of circumstance . . . , and also as the private sector and communities incrementally and informally step into the gaps left by failed publicly operated services” (p.748). However, this comparative analysis shows that at least some public-private partnerships are less efficient than their pure public counterparts.

The expansion of public-private partnerships in U.S. urban regions and their spread in other developed and the developing countries indicate the vitality of public-private partnerships as institutional approaches in urban economic development. Are public-private partnerships theoretically sound? What are the reasons for the expansion of public-private partnerships in U.S. urban regions and in other countries? The next part of the paper examines these questions.

4. The Causes of Public-Private Partnerships in Urban Economic Development And of Their Expansion in Recent Years

4.1 Theories of Public-Private Partnerships in Urban Economic Development

There is a need to explain why public-private partnerships have been developed in urban economic development at the first place. The literature on private involvement and public intervention in provision of urban services provides a theoretical foundation for public-private partnerships in urban economic development. The core of a substantial amount of economic literature is on whether and when private involvement or public intervention is better for the provision of urban services and infrastructure (e.g., Kolderie, 1986; Malkin and Wildavsky, 1991; Ostrom et al., 1993; Savas, 1987; Walsh, 1995; World Bank, 1994; Wunsch, 1991). According to neoclassical economic theory and the theory of state failure, competitive markets are essential for efficient resource allocation and service production and for the responsiveness of urban services to consumers. Thus, it is argued that a non-competitive environment, i.e. public intervention, leads to both inefficiency of resource allocation and production and less responsiveness of urban services to consumers. Also, a lack of competition results in a failure to adopt new technology in a timely way. Therefore, privatization or at least private involvement in the production of urban services is inevitable in order to enhance the quality and efficiency of urban services.

However, it is recognized that public intervention is necessary in the case of market failure, which means the market mechanism does not always function efficiently to ensure the provision of urban services. There are three main arguments for public intervention (Walsh, 1995; Batley, 1996). The first is referred to as the “public goods argument”. It states that public intervention is inevitable because of non-excludability of the public goods such as police services, street lighting, or street sweeping. The second is the “market failure argument”: the market fails to work well because of the embedded nature of some urban services including a tendency to monopoly, substantial initial investment and huge uncertainty of return, positive and negative externalities, and information asymmetry. The third is the “equity or merit good argument” where it is argued that the government has to assure all the people access to certain basic goods and services like education and health regardless of their ability and willingness to pay for such services at market prices.

These theoretical arguments provide fundamental reasons for both private involvement and public intervention in provision of urban services and thus provide justification for public-private partnerships because provision of urban services does not exclusively belong to either the public or the private sectors. However, these arguments do not provide guidance on the extent of or the way that public intervention should be involved and the way that the two sectors interact to achieve optimal solutions. As shown later in the paper, the extent of public presence in public-private partnerships varies across countries due to the differences in the strength of the state. For example, public-private partnerships are usually dominated by the public sector in a country with a strong state.

Except for the provision of urban services, public-private partnerships are developed for promoting urban economic growth and inner city revitalization in terms of job and wealth creation and redistribution. As previously stated, public-private partnerships have increasingly expanded in the United States and across the world. What forces are behind this phenomenon? How are the participants interrelated with each other? Among the most popular theories about urban public-private partnerships are growth

coalition theory (Domhoff, 1986; Molotch, 1976) and regime theory (Elkin, 1987; Stone, 1989). Growth coalition theory assumes that urban growth is driven by a coalition of interests, which is dominated by local property owners who expect to benefit from the rise of land and property values with the growth of the urban economy (Molotch, 1976). Local government and the media promote growth based on assumed job growth and rising retail and wholesale sales. Local government expects to benefit from the growth of property and sales tax bases. All participants are autonomous and voluntary in participating in the promotion of urban growth. Unlike growth coalition theory, regime theory argues that all participants are constrained by economic, political and institutional forces. In the United States, business is regarded as the dominant force in urban growth so that local government often tends to develop policies acceptable to the business community.

However, both theories are rejected by Lawless (1994, p1321) in his analysis of the Sheffield Central Area Study. He concludes that both theories are flawed with their underestimation of the local political context and “political conflict between and within partners” and with their overemphasis of “the influence of the indigenous business community”. Also, he points out that growth may not necessarily be the dominant factor in urban governance and that both theories underplay “the prominence of local government”. The analysis of Lawless (1994) shows the importance of local institutions in the formation and operation of public-private partnerships in urban economic development. It is important to recognize that the relationships between the public and private partners depend on national political and socio-economic context and local institutions.

4.2 The Role of National and Local Context in Public-Private Partnerships

Due to differences in culture and institutions across countries even in different parts of a country, there is no universal formula for dealing with the relationships between the public and private sectors. Especially, national context including political and socio-economic systems plays an important role in the formation and operation of public-private partnerships (Keating, 1998; Savitch, 1998). Savitch (1998) identifies five basic models of public-private partnerships on the basis of the differences in the strength of the states and in the degree of voluntary traditions, ranging from those managed by government (Great Britain) to those controlled by business (United States). They are the models of strong state/weak voluntary tradition (France), limited state/vigorous voluntary tradition (United States), strong state/vigorous voluntary tradition (Sweden and Germany), limited state/weak voluntary tradition (Hong Kong), and the hybrid model (Great Britain). Savitch (1998) also shows an ascending ranking of nations by the degree of public dominance in public-private partnerships, which accordingly are Hong Kong (pre-1997), USA, Canada, Great Britain, Sweden, and France.

It is argued that culture or social capital plays an important role in economic development (Fukuyama, 1995; Lipset, 1996). America is different from most other countries because it has strong anti-statist and individualist values (Lipset, 1996). Consequently, the leadership role of the private sector (including associations and non-profit organizations) is much stronger than in other countries, e.g. European countries, that look more to public sector leadership for economic development. Also, there are sizable amount of research in the economic literature indicating the importance of institutions in economic development (Abramovitz, 1986; North, 1990; Lin and Nugent, 1995). Therefore, it is important to recognize that national even local institutional context must be

taken into account when forming or analyzing partnerships. For example, a cultural and institutional view of the issue helps explain why the U.S. style business-led public-private partnerships were not successful in Britain (Lipset, 1996; Chandler, 1998), where institutions were very centralized and where, unlike in the U.S., the business society did not have close ties to local community. In the U.K., local governments were actually required by central government to create public-private partnerships for grants, which are referred to as “shotgun partnerships” (Harding, 1998). European Union’s programs, including the Community Support Frameworks and the European Regional Development Fund, also require public-private partnerships for regions or municipalities that apply for funding from such programs. Further, local context also has impact on public-private partnerships. Pierre (1998) finds that urban political economy plays a role in local industrial partnerships. For example, “municipalities with a strong commitment to developing the local economy combined with an assertive local business community tend to foster a model of urban political economy which is highly conducive to the creation of public-private partnerships.” (Pierre, 1998, p.137)

4.3 Why Have Public-Private Partnerships Expanded Since the 1980s?

The following is to explain why public-private partnerships have expanded in the United States and in other countries since the 1980s. There are two different explanations for their expansion in U.S. urban regions (Clarke, 1998). The first is that public-private partnerships are established as pragmatic responses to the changing conditions in American urban regions. Public-private partnerships are assumed to reduce transaction costs among interests groups, compete for investment, increase jobs, improve economic restructuring, and help to overcome fiscal constraints for urban revitalization after the withdrawal or reduction of federal funds in the 1980s.⁵ Another explanation is that public-private partnerships are an institutional response to the increasing “complexity and fragmentation of community life” for improvement of urban governance. This is because public-private partnerships help build community consensus and strengthen local capacity to enhance the quality of community life.

Public-private partnerships in U.S. urban regions have expanded with the increase of local government economic development activities. To a large extent, the causes of the increase of local economic development activities may also explain why public-private partnerships, as an institutional approach in urban economic development, have expanded. Based on a comprehensive review of literature on the politics of local economic development, Wolman and Spitzley (1996, p.119) summarize the major arguments for the causes of increased local economic development activities as follows:

- (1) The mobility of capital has increased substantially during the past decades and is now international in scope, leading to increased competition among cities to maintain their economic and fiscal bases;
- (2) Slow national economic growth during the past two decades has resulted in similarly slow growth or even decline in many urban economies, with consequent pressure to take action to provide jobs for residents and fiscal resources for local governments;
- (3) International economic restructuring has resulted in particularly hard economic times for cities dependent on traditional manufacturing employment, leading

elected officials to engage in economic development activities for both employment and fiscal reasons;

- (4) Cutbacks in aid from the national government – a result of slow economic growth, rising deficit, and ideology – have reduced national assistance for local economic development and have thrown local governments back on their own resources if they are to undertake economic development activity.

The inference from these arguments is that increased mobility of capital, economic restructuring, fiscal constraints, and ideology have played their roles in the expansion of public-private partnerships in urban economic development. However, the contribution of these factors to the expansion of partnerships may differ greatly across urban regions.

U.S. urban regions have been regarded as exemplary models in urban revitalization and economic development by many countries. This has contributed to the increase of public-private partnerships in other developed countries and in the developing countries over the last two decades. Chandler (1998, p.158) points out that British government's "thinking on partnerships was considerably influenced by best practices within the United States." It was clearly stated by Michael Heseltine (1987, p.144), the Conservative government's minister of industrial policy then, that urban revitalization grants were "designed to secure the highest possible ratio of private investment in response to pump priming with public funds. It was modeled on a pattern developed in the United States which laid the foundations of incentives that encouraged the private sector to rebuild parts of Baltimore, Boston, Minneapolis and other cities". Friedrichs (1998) indicates that public-private partnerships developed in the United States, especially in Pittsburgh, were widely introduced into Germany for their success for contributing to urban revitalization in the late 1980s. The case of Pittsburgh was regarded as a model of urban revitalization in the Ruhr area. With regard to the emergence of public-private partnerships in urban regions of the developing countries, the practices in the advanced countries including the U.S. are part of the reason; other reasons include "fiscal difficulty of sustaining service" and the "pressure of donor influence" through structural programs (Batley, 1996, p.723).

Certainly, the desire and need for urban revitalization and economic growth is the fundamental reason for these countries to look at the practices of partnerships in U.S. urban regions. But it does show that the experience of the U.S. urban regions has contributed to the spread of public-private partnerships in urban economic development in the world. Some of the factors influencing public-private partnerships in U.S. urban regions also exist in other countries. For example, structural change of the economy, rapid technological changes, and economic globalization are the challenges facing all the countries in the world. These common factors help explain why the U.S. experience of public-private partnerships has been explored by other countries. But other conditions like anti-statist and individualist values lead to an approach in the U.S. that is not easily duplicated elsewhere. As discussed above, national context and local institutions should be taken into account whenever public-private partnerships are formed or analyzed.

5. Types of Public-Private Partnership in Urban Economic Development

A review of the literature shows a lack of a useful framework for the categorization of public-private partnerships. This leads to a vagueness in the theoretical analysis of the role played by public-private partnerships in urban economic development. This also

creates difficulty in understanding how public-private partnerships should be improved to achieve optimal performance in different activities because the objectives, participants, and the relationships between the participants differ in different activities. Therefore, there is a need for a more useful categorization to better understand and more efficiently use public-private partnerships in urban economic development. Below a set of different categorizations are examined and evaluated, followed by the presentation of a new categorization.

There are a number of approaches for categorizing public-private partnerships in urban economic development (e.g., Batley, 1996; McQuaid, 1994, Ministry of Municipal Affairs, 1999). The differences between them are centered on the kinds of partnership components that are chosen for the basis of the categorization. In his analysis of urban services provision across countries, Batley (1996) lists three types of public-private partnerships based on their organizational arrangement or the relationships between the public and private sectors: joint ownership, joint investment and joint venture. It is important to note that his emphasis is on the broad view of public-private relationships in urban services provision. However, several categories discussed, such as “contracting-out”, “lease, concession or license of monopolies”, “licensed competition between producers”, “joint ventures with beneficiaries” and “public support for private consumption and provision” should also be put under the broad category of public-private partnerships. This is because the role of government is not only a regulator but also a partner when the private sector is involved in the provision of urban services in different ways.

In the guidebook for local government in British Columbia, ten types of public-private partnerships are listed in a table indicating the types of public-private partnerships and the features, areas of applications, advantages and disadvantages of each type (Table 1). This approach is based on the responsibilities and rewards that the private sector takes in partnerships for urban economic development. Table 1 shows the relationship between government and the private sector. This approach has the advantage of clearly identifying the roles of public and private participants in the partnerships. The categorization is limited to public-private partnerships in the development of urban infrastructure, facilities and related services. The disadvantage is that other “soft” areas in urban economic development such as education, health services, community safety and labor force development are not included.

Table 1 Types of Public Private Partnerships Defined by the Government of British Columbia

Types of Public-Private Partnerships	Relationships between Government and the Private Sector	
	Local government	Private sector
Operations and Maintenance	Ownership of the facility	Operation and maintenance under contract with government
Design-Build	Ownership, operation and maintenance	Design and build
Turnkey operation	Financing, performance objectives setting and ownership	Design, construction and operation for a specified period of time
Lease-Purchase	Lessee for a specified period of time and then ownership	Design, financing, construction and lessor for a specified period of time
Temporary Privatization	Seller of the facility	Owner and operator of the facility for a specified period of time
Lease-Develop-Operate or Buy-Develop-Operate	Lessor or seller	Lessee, investor and operator of the facility for a specified period of time
Build-Transfer-Operate	Owner after the transfer of the facility and then lessor	Investor and developer first and then lessee under long term lease
Build-Own-Operate-Transfer	Recovering the title of the facility at the end of franchise period	Financing, construction, maintenance, management, and fees collection during the franchise period
Build-Own-Operate	Seller	Financing, ownership, and operation

Source: Ministry of Municipal Affairs, The Government of Columbia, Canada, 1999.

McQuaid (1994) provides a general approach to the categorization of partnerships in urban economic development, which is shown in Table 2. The core of his approach is to identify “what the partners seek to do, who is involved, how it is to be implemented and how it may change over time.” (p.6) This approach is a great improvement compared to the Ministry of Municipal Affairs model. But there are questions that beg an answer. Why is “geographical area” not regarded as an independent component group like “time” or why does not time fall into the group of “Remit”? It causes confusion when time and space are not treated equally. Further, the aims of public-private partnerships are narrowly defined. Also, geographical scale is not necessarily limited to a local jurisdiction but can extend to the multiple-jurisdiction level in order to reduce regional conflicts in competing for investment and dealing with environmental problems.⁶ In order to achieve sustainable development, public-private partnerships need to move beyond the realm of narrowly-defined economic development to encompass social, cultural and environmental aspects that eventually have impact on economic development. Further, the subgroup “range of activities” is heavily dependent on the aims of partnerships and thus is not quite meaningful in the categorization of public-private partnerships. Regrettably, an important factor, type of activities in which partnerships are involved, is not included. It is vital to recognize the differences in the nature of partnerships in urban economic development activities that vary in focus from infrastructure development to public health initiatives.

Table 2 Types of Public-Private Partnerships Defined by McQuaid

Components of Partnerships	Examples
REMIT	
Aims	Employment and wealth creation - employment and wealth redistribution
Range of activities	Single project - long term program
Geographical area	Small urban area - widespread client group
KEY ACTORS	
Range of actors	Public-private-voluntary-community
Formal structure	Legal contracts - general agreements
Informal structure	Overlapping networks
IMPLEMENTATION MECHANISMS	Stand alone organization - agreement influencing existing services
TIME	Stage of project - changes within partner organizations

Source: McQuaid (1994).

Based on the previous discussion, a general framework for categorizing public-private partnerships in urban economic development is provided in Table 3. It is different from McQuaid's approach in several ways including that objectives or aims, type of activities and geographical scale become independent groups rather than subgroups. This new approach of categorization is not only helpful in support of theoretical analysis, but it is also useful for practitioners in designing and using public-private partnerships in economic development practice.

First, using objectives as a category helps clearly identify what a partnership is for. A partnership can have a single objective or multiple objectives. It depends on how it is designed at the beginning and how it changes over time. Second, by adding a category "type of activities", it helps identify in what activities public-private partnerships prevail and how efficiently they perform across activities and thus helps policy makers to adjust their strategies for improved efficiency. Third, a clear identification of participants and their interrelationships ensures that all related interests groups are incorporated in the partnership to enhance not only efficiency but also equity.

Further, organizational arrangement or design is important for the success of a partnership. The organizational arrangement that should be established will depend on the willingness of participants to cooperate and on the nature of the activity that the partnership is designed to deal with. Finally, geographical area and time scale helps understand how partnerships in urban economic development are distributed across space and how they vary over time.

Based on each of the components, public-private partnerships are further divided into subtypes. In each subtype, the characteristics of the partnerships can be better identified. When public-private partnerships are categorized on one component, the characteristics of other components can be clearly identified. If a study is to find who are major participants in public-private partnerships, this requires a categorization of partnerships on the basis of activities. We know, for example, NGO or non-profit organizations may have greater impact in social services and environmental protection than in infrastructure construction. Public-private partnerships can also be analyzed on the basis of the relationships between participants. In a recent study, public-private

partnerships are categorized into four models: leader-follower, seller-buyer, joint venture, and limited and full partnerships (Schaeffer and Loveridge, 2001). This approach helps to better understand the behaviors of all participants in public-private partnerships.

Table 3 A General Framework of Categorizing Public-Private Partnerships in Urban Economic Development

Types of Components	Subtypes of Components
Objectives	1. Economic growth: job creation and income generation 2. Income redistribution 3. Social, cultural, and environmental improvement
Type of activities	1. Infrastructure development, operation and maintenance 2. Business and community facilities 3. Non-development-related urban services 4. Workforce development 5. Social Services and Environmental Protection 6. Institutional building
Participants and their interrelationships	1. Composition of participants 2. Roles of participants: how risks and benefits are shared and how resources are committed.
Organizational arrangement	1. Stand alone organization 2. Agreement
Geographical scale	1. Small urban area within a local jurisdiction 2. Whole local jurisdiction 3. Multi-jurisdiction level
Time scale	1. Short-term (with a specific period for the partnership) 2. Long-term

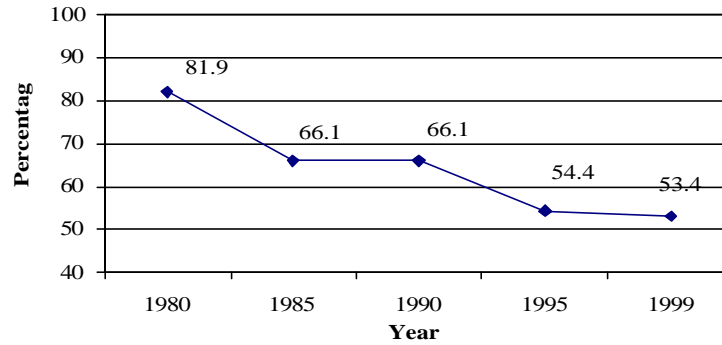
6. Prospects of Public-Private Partnerships in China

(1) The rise and rapid growth of private and other non-state sectors provides the prerequisites for public-private partnerships in China.

At the beginning of reform, the economy was dominated by the state-owned sector and there was almost no private sector at all. But Chinese economy has been remarkably transformed in many aspects in the last two decades. In terms of ownership structure, the state-owned sector is shrinking and the private and other non-state sectors are rapidly growing. According to a recent study by the International Finance Corporation (2000), in 1998 the private sector approximately accounted for 33 percent of GDP while the state-owned sector had a share of 37 percent in GDP. If the household-based agriculture was counted as private in a broader sense, the private sector would have a share of 51 percent of GDP. Combining the contribution of collective-owned sector, about 62 percent of GDP in 1998 was produced by non-state sectors.

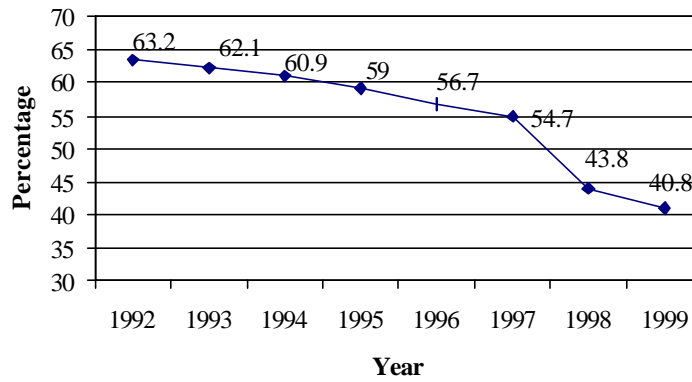
Undoubtedly, non-state sectors have become a prominent driving force of the Chinese economy. With the rise and rapid growth of private and other non-state sectors, state-owned sector has had a decreasing share in fixed assets investment (Fig. 1) and in total urban employment opportunities (Fig. 2). It is expected that the private and other non-state sectors are to play a greater role in the economy with further development of the market economy. The rapid growth of the private and other non-state sectors provides a prerequisite for application of public-private partnerships in urban development.

Fig. 1 State-owned Sector's Share in Fixed Assets Investment



Source: State Statistical Bureau, *China Statistical Yearbook*

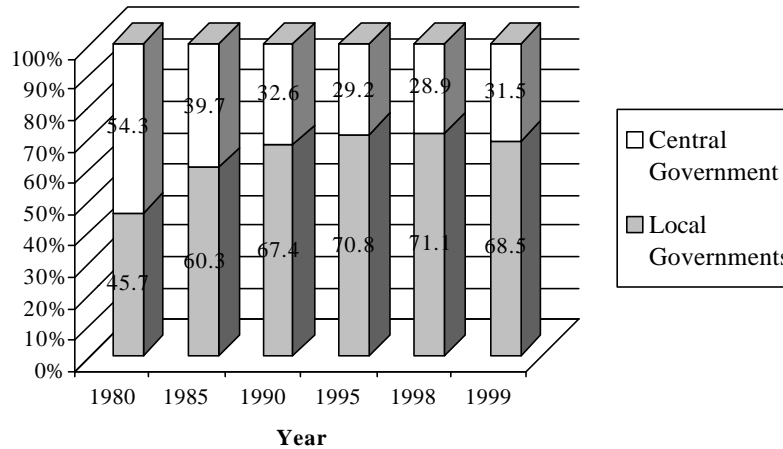
Fig. 2 State-owned Sector's Contribution to Total Urban Employment



Source: State Statistical Bureau, *China Statistical Yearbook*

(2) Fiscal decentralization provides strong incentives for local governments to seek cooperation with the private and other non-state sectors in urban economic development. With the deepening of fiscal reform, central government has reduced its resource allocation to local governments. The share of the central government in total fiscal expenditure has been declining, leaving an increasing share for local governments (Fig. 3). As a result, local governments face increasing pressure in urban financing and have to seek revenues on their own to meet the increasing need for funding in urban development. Alternatively, local governments can use the resources of the private and other non-state sectors through appropriate partnerships to promote urban economic development.

Fig 3. Share of Fiscal Expenditure between Central and Local Governments



Source: State Statistical Bureau, *China Statistical Yearbook*

(3) Public-private partnerships can be established in various areas in urban economic development and local governments need to establish an institutional framework for their development. In fact, public-private partnerships have been developed in urban land development in China. For example, local governments allocate urban land to developers at favorite price for construction of affordable housing for low-income families. Also, local governments often ask property developers to provide urban infrastructure as a condition for land allocation. It is important to recognize that there is a great potential for public-private partnerships in other areas such as the improvement of public services and job creation. The private sector uses resources more efficiently than the state-owned sector. The study by International Finance Corporation (2000) shows that "the average capital-to-output ratio for private and individual enterprises is only about half of that of SOEs" (p. 17-18). Local governments should provide an institutional framework for public-private partnerships and encourage the involvement of private sector in various aspects of urban development. Once necessary regulations are established, there is much for private sector to do. For example, floating population is usually excluded from urban public education system because of household registration system. Under the guidance of local government, private schools may provide affordable education to them through partnerships with local government and public schools. As for job creation, it is very important for local governments to encourage private and other non-state sectors to be involved in job training and reemployment of laid-off workers. As shown in Fig. 2, SOEs' contribution to urban employment has largely decreased. Thus, the growth of urban employment increasingly relies on the growth of non-state sectors. To assure the large number of laid-off workers from SOEs to be absorbed by non-state sectors, local governments need to encourage the development of non-state sectors and cooperate with them through various ways including job training and information dissemination.

7. Conclusions

While public-private partnerships are widely used as an institutional approach to urban economic development, its definition is diverse and vague. One of the reasons for

the vagueness of the definition may be due to the diversity of public-private partnerships in urban economic development, an area that does not have a universally accepted definition either. However, the different definitions of public-private partnership are not necessarily conflicting despite their incompleteness. A comparison and synthesis of the definitions suggest that partnerships are characterized by the following attributes: involvement of multiple public and private participants; agreement on objectives and strategies; mutual benefits; essential resource commitment; and variety of activities. The geographical and time scale of a public-private partnership depends on its objective and the activity involved. The vagueness of the term “partnership” requires a clear identification of what the partnerships are when conducting research in public-private partnerships.

In the last two decades, public-private partnerships have expanded with the increase of economic development activities in U.S. urban regions. Local governments take partnerships seriously as an important approach to urban economic development. At the international level, public-private partnerships have spread to other developed countries like Britain and Germany and the developing countries. At the turn of the 21st century, the public-private partnership is widely recognized as vital for competitiveness of urban regions.

There are several reasons for public-private partnerships in urban economic development and for their expansion in the last two decades. With regard to the provision of urban services, a combination of neoclassical economic theory, the theory of state failure, the theories of public goods, market failure and merit goods provide theoretical foundation for public-private partnerships. According to neoclassical economic theory and the theory of state failure, competitive markets are essential to efficient resource allocation and service production and to the responsiveness of urban services to consumers or consumer satisfaction. It is argued that public intervention leads to inefficiency of resource allocation and production and less responsiveness of urban services to consumers. Therefore, privatization or at least private involvement in production of urban services is inevitable in order to enhance the quality and efficiency of urban services. However, the theories of public goods and market failure show that public intervention is inevitable because of the embedded nature of some urban services with such attributes as non-excludability, tendency to monopoly, the large initial investment and huge uncertainty of return for many goods and services, and information asymmetry. The theory of merit goods suggests that the government has to assure all the people access to certain basic goods and services like education and health care regardless of their ability and willingness to pay for such services at market prices.

As to the process attributes of public-private partnerships, the two main theories are growth coalition theory and regime theory. According to growth coalition theory, the urban region has become a growth machine driven by business interests, especially by land owners who expect and will benefit from the rise of land and property values with the growth of urban economy. Local government expects to benefit from the growth of sales and property taxes. All participants in the growth coalition are assumed to be autonomous and voluntary. In regime theory, all participants are constrained by political, economic, and institutional forces. It is argued that local government often tends to develop policies acceptable to the business community because of the dominant influence of the business community. However, both theories are rejected by Lawless (1994) with his analysis of the Sheffield Central Area Study. He concludes that both theories are flawed because they

underestimate the important influence of the local political context, political conflict within partnerships and the role of local government and overemphasize the influence of local business community. It is recognized that national contexts and local institutions have important impact on the formation and operation of public-private partnerships resulting in various models of public-private partnerships across countries.

There are different explanations for the expansion for public-private partnerships in U.S. urban regions. The first explanation is that public-private partnerships are established as pragmatic responses to the changing conditions in American urban regions. The second is that public-private partnerships are an institutional response to the increasing “complexity and fragmentation of community life” for improvement of urban governance. Public-private partnerships in U.S. urban regions have expanded with the increase of local government economic development activities. The main factors responsible for the increase of urban economic development activities over the past 20 years are increased mobility of capital, economic restructuring, fiscal constraints, and ideology. Accordingly, these factors have probably played a major role in the expansion of public-private partnerships in urban economic development. However, the dominant factors in the expansion of partnerships may differ greatly across urban regions and across countries.

An appropriate categorization is helpful to a full understanding and the efficient use of public-private partnerships in urban economic development. There are a number of approaches for categorizing public-private partnerships in urban economic development, but they are flawed. McQuaid’s approach is a general one while others are limited to specific activities. Based on a comparison and synthesis of these approaches, a new categorization is provided. The categories are objectives, type of activities, participants and their interrelationships, organizational arrangement, and geographical and time scales. This approach is helpful for theoretical analysis of public-private partnerships in urban economic development, and may also be useful for practitioners in their efforts to design and use public-private partnerships in economic development practice.

With the economic reform, private sector has become a vital component in Chinese economy. Almost two third of output now is produced by non-state sectors. The increasing presence of private and other non-state sectors provides a prerequisite for public-private partnerships in China. At the same time, local governments increasingly face financial constraints in urban economic development because of fiscal decentralization. This gives local governments the incentive to seek cooperation with private sector and other non-state sectors for resources. Public-private partnerships can be developed to deal with various issues in Chinese cities.

There are several directions for future research. First, it is important to examine the types of objectives for which public-private partnerships have been developed to achieve in urban economic development and the extent to which these objectives have been achieved. This will not only help to evaluate the performance of the public-private partnership approach in urban economic development, but it will also help to identify potential new contexts in which public-private partnerships can be used. Second, it is important to understand how public-private partnerships operate to achieve different types of activities. Due to the differences in the nature of various activities, it is important to investigate different uses of public-private partnerships to learn how different kinds of partnerships are similar and different in terms of the composition of and the relationships between participants, organizational arrangements, and geographical and time scales.

Third, more studies are needed to analyze how national and local conditions such as culture, history, and political context affect the application of public-private partnerships in urban economic development. Finally, it is interesting to know how public-private partnerships are applied in urban economic development in China.

Notes:

1. An earlier version of this paper is entitled “Public-Private Partnership in Urban Economic Development: Definitions, Trends, Causes and Types”, which is presented at the 14th European Advanced Studies Institute in Regional Science, June 10-16, 2001 -Groningen, the Netherlands.
2. The terms urban economic development and local economic development are interchangeably used. Though local economic development may cover the development of rural area, it often means urban economic development in the economic development literature. See Wolman and Spitzley (1996), p.115.
3. The term “urban regions” means urbanized areas, which covers a broader area than the conventional term “cities”. Some researchers use the term “cities” rather than “urban regions” though they actually discuss issues in urban regions.
4. Business climate is a combination of all factors including cost factors (e.g., land, labor, taxes, regulations) and non-cost factors (e.g., culture, quality of life, institutions) in urban area. Government can improve business climate by affecting these factors.
5. Urban Development Action Grants program initiated by Carter Administration for urban development through public private partnerships was terminated during Regan Administration. CDBGs program was kept but its funding levels were greatly reduced. This change forced local governments to seek both financial resources and expertise from private sector.
6. In recognition of the shortcomings of urban entrepreneurialism based on individual cities, there has emerged competitive regionalism that is characterized with regional cooperation of various tiers of government and multiple jurisdictions and cooperation across different segments of a local and regional economy. Competitive regionalism helps avoid waste of public resources and achieve common prosperity among all participating localities and parties. See McCarthy, L. (2000).

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