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# Patterns of China's Regional Development Strategy\*

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The purpose of this article is to compare and contrast China's approaches to regional industrial development in the Maoist and post-Mao periods. By focusing on patterns of investment and regional shares of gross value of industrial output (GVIO), this article will argue that China's regional industrialization strategy has changed to one of uneven regional growth in the post-Mao period from the Maoist emphasis on eradicating regional industrial disparities through interior-orientated investments. In short, the post-Mao Chinese leadership has not only relaxed its Incantation of the Golden Hoop, or strait-jacket on the coastal region but has come to rely on the coastal region to provide the "engine of growth" for China's economic development.<sup>1</sup>

For the sake of simplicity, I will call the development strategy of the 1953–78 period the "Maoist development strategy." Though it varied in degrees in different sub-periods, the Maoist strategy dominated China's industrialization efforts until it gradually faded out in the late 1970s. It relied on heavily redistributive measures in an attempt to equalize regional economic development, emphasized extensive rather than intensive modes of economic growth, and allowed no foreign direct investment in China.

In contrast, the post-Mao Chinese leadership has gradually, but decidedly, reversed the Maoist model and come to adopt a new development strategy. This new strategy, which, for lack of a better term, I shall call the "uneven development strategy," represents another attempt to bring China out of economic backwardness. Focusing on economic results, the new strategy emphasizes regional comparative advantage, accepts regional disparities as inevitable, encourages foreign investment and international interaction, and seeks to foster technological innovation.

Post-Mao central government policies have favoured the coastal region more than the interior. The Chinese leadership sees developing the coastal region first as being in the national interest and believes coastal development will serve as a catalyst in the modernization of the whole country. However, although the interior has experienced rapid economic growth in the post-Mao period, coastal economic growth has been even faster. As a result, the coastal region will take up an increasing share of the national GVIO in relation to the interior. In the coming years, regional disparity is likely to widen further.

In this article, I will delineate certain patterns of regional

\*This article was completed in January 1989.

1. In the classic Chinese novel *Journey to the West*, the monk uses the Incantation of the Golden Hoop to control the Monkey King, or Sun Wukong.

development. I will start with a brief background about regional differentiation and then review the Maoist development strategy. I will argue that, in regional terms, the Maoist development strategy was subverted internally by the Maoist dictum of self-reliance at various levels. Next, I will examine the leadership's rationale for changes and present evidence showing the switch-over to an uneven development strategy. Finally, I will discuss the political and economic implications of the new development strategy.

### *Background*

Both China's Sixth (1981–85) and Seventh Five-Year Plans (1986–90) emphasize the different economic development levels in the coast and interior.<sup>2</sup> In the Seventh Plan, the interior is further divided into the central and western regions.<sup>3</sup> The coastal region includes the narrow strip along the sea coast. Counting Hainan, which became a province in early 1988, the coastal region includes 12 provincial units.<sup>4</sup> A large proportion of the nation's major industrial cities and all four Special Economic Zones (SEZs) are found in the coastal region (see Figure 1).<sup>5</sup>

Generally speaking, the coastal region is much more developed industrially than the central region; the central region is in turn far superior to the western region in terms of industrial development. From Table 1, we can see that the coastal region, with slightly less than 14 per cent of the total area, supports more than 41 per cent of the nation's population.<sup>6</sup> In 1983 the coastal region produced about 60 per cent of the national GVIO while the central and western

2. *The Sixth Five-Year Plan of the People's Republic of China for Economic and Social Development (1981–1985)* (Beijing: Foreign Languages Press, 1984), see esp. Chs 20–21 of Pt III. *Zhonghua renmin gongheguo guomin jingji he shehui fazhan diqiye wunian jihua (1986–1990) (The Seventh Five-Year Plan of the People's Republic of China for Economic and Social Development (1986–1990)* (Beijing: Renmin chubanshe, 1986), see esp. Chs 16–18, 20 of Pt III.

3. Owing to space limitation, I will not try to compare in detail the three regions with the widely known and widely used six political-administrative regions (North-east, North, East, Central South, South-west, North-west). It suffices to say that, while the division of the country into six regions was mainly based on political, military, and administrative considerations, the three-region scheme is almost entirely based on economic and geographic considerations. For a chronology of the changes in China's administrative divisions (1949–1980), see Suzanne Paine, "Spatial aspects of Chinese development: issues, outcomes and politics 1949–79," *The Journal of Development Studies*, Vol. 17, No. 2 (January 1981), pp. 193–94. It must also be pointed out that there exist different regional classifications for China. I have simply adopted the one promulgated in The Seventh Plan, p. 91.

4. I use the word "province" to denote any one of the provincial-level administrative units, including: provinces, centrally administered municipalities, and autonomous regions.

5. An incomplete list of major industrial cities in the coastal region would include Beijing, Tianjin, Shanghai, Dalian, Anshan, Fushun, Shenyang, Qingdao, Jinan, Nanjing, Hangzhou, Fuzhou, Guangzhou.

6. Since amounts in constant prices are not always available, most of the tables in this article use shares of the total in order to eliminate the price factor. Owing to rounding, figures may not always add up exactly to their totals.

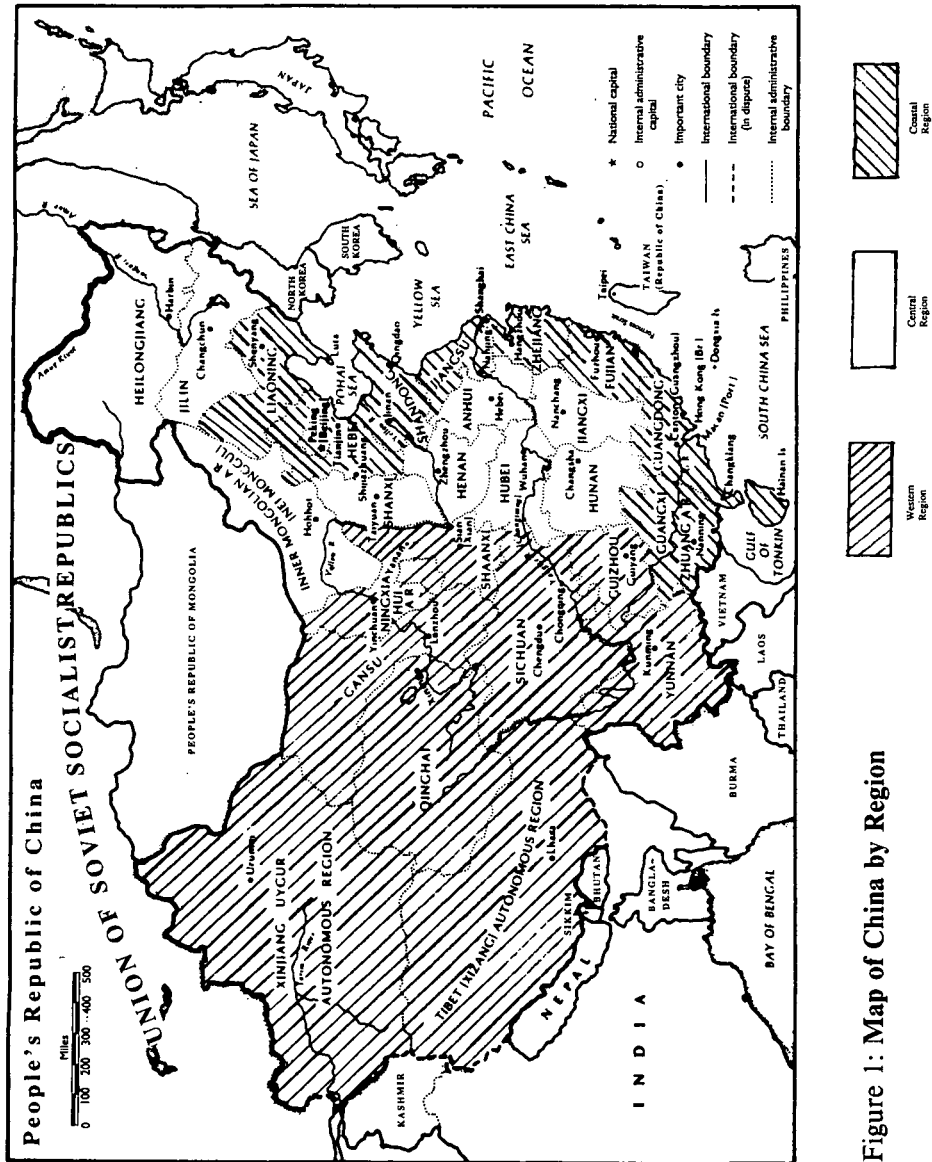


Figure 1: Map of China by Region

regions together produced the rest. Therefore, significant regional disparities exist in China.

Faced with these underlying economic realities, the Chinese leadership has decided to concentrate on developing the coastal region starting from the Sixth Five-Year Plan and up to at least the 1990s. The Seventh Plan clearly states that the objective is "to speed up the development of the coastal region, to put the emphasis on energy and raw materials construction in the central region, and to actively make preparations for the further development of the western region."<sup>7</sup> In essence, this is an uneven regional development strategy. To understand these developments, I will first examine the Maoist regional development strategy to facilitate a later comparison.

Table 1: Population and Area by Region (1986)\*

Region	Population (million)	% of Total	Area (10 thousand km <sup>2</sup> )	% of Total
Coastal Region	435.26	41.30	129.36	13.91
Central Region	375.50	35.63	273.00	29.36
Western Region	243.21	23.07	527.60	56.73
Total	1,053.97†	100.00	926.96	100.00

Notes:

\*Figures relating to Taiwan are not included here as they normally are.

†This total does not include the number of the population serving in the armed forces, or 3.24 million in 1986.

Sources:

Population figures are calculated from Chūgoku Kenkyūjo Hen, *Chūgoku nenkan: 1988 (China Yearbook)* (Japan: Taishukan Shoten, 1988), p. 251. Figures for provincial areas are calculated from Waiwen Chubanshe Zhongguo Qingkuang Bianjishi, *Zhongguo gailan (China Survey)* (Beijing: Renmin Chubanshe, 1987), p. 19.

### *Regional Aspects of the Maoist Development Strategy*

The industrial system taken over by the Chinese Communist leadership in 1949 was not only rudimentary and war-devastated, but also extremely imbalanced. Over 70 per cent of the industrial assets and output (including handicraft output) were concentrated in the coastal areas while the rest of the country shared the remainder.<sup>8</sup> Within the coastal region, modern industrial production was again heavily concentrated in a few cities; the gross value of output of eight

7. *The Seventh Five-Year Plan*, p. 91.

8. State Statistical Bureau, *Guanghui de sanshiwu nian: 1949–1984 (Thirty-five Glorious Years: 1949–1984)* (Beijing: Zhongguo tongji chubanshe, 1984), pp. 64–65.

cities (Beijing, Tianjin, Shanghai, Shenyang, Anshan, Benxi, Dalian, Fushun) accounted for 55 per cent of the total for the coastal region.<sup>9</sup> China was a typical dual economy, in which a vast agricultural hinterland surrounded the few industrial cities.

When the Chinese leadership in the early 1950s started its strenuous efforts at industrialization, it regarded the huge coast-interior imbalance as irrational for three principal reasons. First, areas of industrial production (the coast) were usually too far away from energy and raw materials supply areas and the interior market. This not only entailed substantial long-distance transport costs but also put undue strain on China's undeveloped transport system. Secondly, the rich resources in the inland areas could not be properly exploited.<sup>10</sup> Thirdly, since the coast was easily exposed to foreign military power, the heavy concentration of industry there represented a national security risk, as was the case during the Second World War.<sup>11</sup>

To rectify that regional imbalance, the Chinese leadership decided to pull the levers of centrally directed investment. During the First Five-Year Plan period (1953–57), almost two-thirds of the major projects, including many being built with Soviet aid (such as the Taiyuan Steel Works in Shanxi) were located in the interior.<sup>12</sup> Despite allowance made to help rehabilitate war-devastated coastal industrial facilities (such as the Anshan Iron and Steel Works), nearly 56 per cent of the state investment in fixed assets went to the interior during this period (see Table 2).

The interior-orientated investment policy took its toll in terms of economic efficiency as coastal industrial growth was sorely needed as a foundation for the development of the whole country. More concentrated efforts at rehabilitation and improvement of old enterprises in the coastal region could have produced more immediate economic pay-offs than making new investments in areas that lacked infrastructural support. Thus, Mao Zedong, in his April 1956 speech "On the ten great relationships," commented that in "the past few years we have not laid enough stress on industry in the coastal region" so that the productive power of coastal industry could be used for the full development of the whole country, especially the interior.<sup>13</sup> In the same speech, however, Mao also revealed he was in favour of building most of heavy industry, "90 per cent or perhaps still more," in the interior.<sup>14</sup>

9. Charles R. Roll, Jr., and Kung-Chia Yeh, "Balance in coastal and inland industrial development," in *China: A Reassessment of the Economy*, A Compendium of Papers submitted to the Joint Economic Committee, United States Congress (Washington, D.C.: Government Printing Office, 1975), p. 82.

10. State Statistical Bureau, *Thirty-Five Glorious Years: 1949–1984*, p. 64.

11. Yu Di, *et al.*, *Zhongguo jingji dili xue (China's Economic Geography)* (Beijing: Zhongguo shangye chubanshe, 1983), p. 30.

12. Roll and Yeh, "Balance in coastal and inland industrial development," p. 84.

13. Mao Zedong, "On the ten great relationships," in Stuart Schram (ed.), *Chairman Mao Talks to the People: Talks and letters: 1956–1971* (New York: Pantheon Books, 1974), p. 65.

14. *Ibid.* pp. 66–67.

Table 2: State Investment in Fixed Assets (Rmb 100 Million)\*

Period	Coastal Region		Interior†	
	Amount	% of Total	Amount	% of Total
First Five-Year Plan (1953–57)	217.26	44.1	275.57	55.9
Second Plan (1958–62)	462.62	40.6	675.61	59.4
1963–65	147.38	37.5	245.77	62.5
Third Plan (1966–70)	262.85	29.4	631.21	70.6
Fourth Plan (1971–75)	625.36	39.5	959.34	60.5
Fifth Plan (1976–80)	988.21	45.8	1,171.59	54.2
including				
1978	200.83	44.0	255.35	56.0
1979	221.09	45.7	262.95	54.3
1980	248.69	47.2	278.46	52.8
1953–80 Total:	2,703.68	40.58	3,959.09	59.42
Sixth Five-Year Plan (1981–85)				
1981	212.20	50.3	209.53	49.7
1982	266.50	50.8	257.95	49.2
1983	277.96	49.6	282.80	50.4

*Notes:*

\*Non-region specific investments in railway engines, ships, aircraft, and civil defence (listed under item N.E.C. in most Chinese statistics) have been deducted. Consequently, the sum of investments in the coast and the interior for a period = total state investment minus N.E.C.

†Interior includes both the central and western regions.

*Sources:*

Adapted from State Statistical Bureau, *Guanghui de sanshiwu nian: 1949–1984* (*Thirty-Five Glorious Years: 1949–1984*) (Beijing: Zhongguo tongji chubanshe, 1984), p. 40. 1953–80 totals are calculated from figures in the table.

The First Five-Year Plan was for a long time the only plan that was even partially executed.<sup>15</sup> Starting in 1958, China's economic development came under the spell of Mao's visions through the notorious Great Leap Forward, leaning heavily on mass mobilization to speed up industrial development.<sup>16</sup> The Leap emphasized heavy industry in general, and the iron and steel industry in particular. In any case, the Great Leap (1958–60) came to be a leap into disaster and was a major

15. Normal planning was not resumed in China until the 1980s.

16. The then much-celebrated slogan during the Leap was: "we ought to catch up with and surpass the United Kingdom in the output of iron, steel and other major industrial products" in 15 years. See Roderick MacFarquhar, *The Origins of the Cultural Revolution*, Vol. 2: *The Great Leap Forward: 1958–1960* (New York: Columbia University Press, 1983), p. 17.

cause of China's worst famine (1959–61).<sup>17</sup> During this period state investment in industrial assets in the interior continued to increase. It averaged 59.4 per cent of the national total during 1958–62 and further grew to 62.5 per cent in the post-Leap adjustment period (1963–65) (See Table 2).

In the meantime, worsening Sino-Soviet relations and U.S. involvement in Vietnam led China's leaders to perceive a greater need for enhancing its national defence capabilities. As a result, despite the much felt post-crisis need to invigorate existing industrial production and restore consumption levels, Mao in 1964 ruled in favour of building more defence-orientated industries in the interior so that China's industrial infrastructure would survive a foreign invasion and provide for a protracted defensive war.<sup>18</sup> The country was divided into three fronts, roughly corresponding to the three regions. Following defence minister Lin Biao's watchword of building "in mountains, in dispersion, and in caves (*shan, san, dong*)," most new industrial constructions were located in the third-front provinces of Sichuan, Guizhou, Gansu and Shaanxi. By the late 1970s some 29,000 third-front entities, including almost 2,000 (one-third of the nation's total) major enterprises and research institutes, were built in these areas.<sup>19</sup> Though it centred on heavy industry, the entire third front build-up was dictated by military rather than economic considerations. The projects were mostly built in areas that lacked proper infrastructure, took a long time to build, tied up great amounts of investment funds, and yielded poor economic results.

This centrally directed effort pushed the interior's share of total state investment in fixed assets to a little over 70 per cent between 1966 and 1970. Despite the extreme chaos of the Cultural Revolution (1966–69), third-front construction continued in the early 1970s for several reasons. First was the renewed war scare arising out of the 1969 Sino-Soviet border clashes. Second was the investment momentum itself; it was both politically and economically difficult for the leadership to leave projects half-finished. Third was the decentralization in economic decision-making, which made it difficult for leaders in Beijing to control investment scale as various localities used the funds under their control to build projects. In consequence, the interior's share of the state investment averaged a high 60.5 per cent during the 1971–75 period (see Table 2).

17. Thomas Bernstein, "Stalinism, famine, and Chinese peasants," *Theory and Society*, Vol. 13, No. 3 (May 1984).

18. Barry Naughton, "The economy of the Cultural Revolution: military preparation, decentralization, and leaps forward," paper presented at the conference on "New Perspectives on the Cultural Revolution," Fairbank Center for East Asian Research, Harvard University (15–17 May 1987), p. 5.

19. Li Yongzeng and Li Shuzhong, "Zhongguo sanxian jianshe de lishi zhuanzhe" ("The strategic turning-point in China's third-front construction"), *Liaowang (Outlook)* (Hong Kong), No. 30 (29 July 1985), p. 10.

*Reassessing the Maoist Regional Development Strategy*

As can be seen in Table 2, from 1953 to 1980, 59.42 per cent of the state investment in fixed assets was allocated to the interior provinces, leaving 40.58 per cent of the total to the coast. This corresponded to the regional population distribution (see Table 1). Nevertheless, since most of the industrial projects were capital intensive, they were necessarily concentrated in select areas (Taiyuan, Baotou, for example, during the First Five-Year Plan period; Chongqing, Panzhihua, Guiyang, Xi'an, among others, after 1964) rather than evenly spread in the interior.

At various stages, different objectives prevailed. In the 1950s the objective was mainly to achieve "balance" in China's industrial distribution and hence in the distribution of regional economic power. After 1964 interior industrialization was dominated by military-strategic considerations. Most of the projects were built in areas not easily accessible and lacking in infrastructure.

Did the Chinese leadership succeed in redressing the coast-interior balance in industrial configuration? The answer is ambiguous. A look at Table 3 reveals why. In terms of the value of fixed assets, the interior was clearly the beneficiary. Its share of the total was raised from 28 per cent in 1952 to nearly 57 per cent by 1983, with a corresponding reduction in the coastal share. Keeping in mind that coastal provinces contributed a much larger share to the central government revenue than interior provinces (see below), the central government's regional investment policy was clearly highly redistributive, taking from the coastal region with the left hand and then giving the interior with the right hand.

**Table 3: Distribution of Industry by Region (1952 and 1983)**

	<i>Amount</i>		<i>% of Total</i>	
	<i>1952</i>	<i>1983</i>	<i>1952</i>	<i>1983</i>
Original Value of National Fixed Assets (bn Rmb)	14.88	476.78	100.0	100.0
Coast	10.71	205.97	72.0	43.2
Interior	4.17	270.81	28.0	56.8
National GVIO (bn Rmb)	34.33	616.44	100.0	100.0
Coast	23.81	366.75	69.4	59.5
Interior	10.52	249.69	30.6	40.5

*Source:*

Adapted from State Statistical Bureau, *Thirty-Five Glorious Years: 1949-1984*, p. 40.

These redistributive investment efforts are reflected in the provincial output changes from 1957 to 1979 (Table 4). Between 1957 and 1979 the per capita industrial output of five of the 11 coastal provinces declined, compared to five out of 18 in the interior.<sup>20</sup> The interior's gain was at the expense of the coast through the central government redistribution of revenues. While Shanghai (20 per cent in 1959; 10 per cent in 1972) and Liaoning (18 per cent in 1972) kept only a small portion of their revenues, the poorest provinces (including Xinjiang, Qinghai, Tibet, Gansu, Yunnan, Guizhou, Guangxi and Ningxia) not only retained all their revenues but also received government subsidies.<sup>21</sup>

Despite the central government's redistributive investment policy, the coastal region still produced nearly 60 per cent of the national GVIO in 1983, with only 43 per cent of the total fixed assets (Table 3). In essence, the imbalance has increased as the coastal region produced the bulk of China's industrial output with much less investment. Two major reasons, one economic and the other political, account for this.

In economic terms, the coastal region enjoyed superior factor endowments compared with the interior. Coastal bases possessed an industrial labour force with long years of experience while the interior had workers who were mostly recent recruits from the peasant population.<sup>22</sup> Coastal industries also accumulated superior managerial skills compared with the interior. Moreover, the coastal region generally had better supporting facilities such as in transport than the interior. Consequently, industrial productivity in the coastal region is considerably higher than that in the interior.<sup>23</sup>

Politically, as Thomas Lyons has shown in his perceptive study, both the structure of China's planning organization and the procedures used to generate directives tend to produce disintegrative tendencies along provincial boundaries. These tendencies were further intensified by the principle of self-reliance in the Maoist period.<sup>24</sup> Each province had considerable power to direct local economic development, especially after the two decentralizations of

20. Provinces whose percentage of the national average changed by a mere 1% are counted as "even." Hence, Shanxi and Sichuan, both interior provinces, are not counted as losers. Nevertheless, even if they are counted as such, a larger proportion of the coastal provinces suffered decline.

21. Carl Riskin, *China's Political Economy: The Quest for Development Since 1949* (New York: Oxford University Press, 1987), p. 212. See also, Nicholas Lardy, *Economic Growth and Distribution* (Cambridge, U.K., and New York: Cambridge University Press, 1978).

22. Chu-yuan Cheng, *China's Economic Development: Growth and Structural Change* (Boulder, Co.: Westview Press, 1982), p. 435.

23. Thomas G. Rawski, *Economic Growth and Employment in China* (New York: Oxford University Press for The World Bank, 1979), pp. 160-64. Mao Zedong was clearly aware of the productivity differential between the coastal and interior industries when he wrote: "The technical level of coastal industry is high, the quality of its products good, its costs low, and it produces many new products." In "On the ten great relationships," p. 67.

24. Thomas P. Lyons, *Economic Integration and Planning in Maoist China* (New York: Columbia University Press, 1987).

**Table 4: Distribution of Per Capita Industrial Output by Province\***

<i>Province</i>	<i>1957</i>	<i>1965</i>	<i>1974</i>	<i>1979</i>
<b>Coastal Region</b>				
Liaoning	385	334	300	257
Beijing	481	385	617	513
Tianjin	1,112	572	663	498
Hebei	55	86	122	84
Shandong	62	58	77	87
Jiangsu	84	93	113	138
Shanghai	1,517	1,165	1,404	1,106
Zhejiang	76	72	58	85
Fujian	69	56	48	59
Guangdong	84	94	85	79
Guangxi	33	32	37	57
<b>Central Region</b>				
Heilongjiang	222	195	127	141
Jilin	161	148	109	120
Inner Mongolia	60	251	187	63
Shanxi	92	n.a.	72	91
Henan	30	41	43	50
Anhui	36	40	36	51
Hubei	74	64	58	86
Jiangxi	54	n.a.	49	51
Hunan	40	41	44	63
<b>Western Region</b>				
Xinjiang	82	86	46	54
Gansu	51	87	100	92
Ningxia	10	24	35	80
Shaanxi	56	73	64	80
Qinghai	45	73	99	78
Sichuan	55	53	41	54
Guizhou	33	48	34	36
Yunnan	48	38	32	40
Tibet	7	13	14	11

*Note:*

\*Percentage of national average.

*Source:*

Adapted from Carl Riskin, *China's Political Economy: The Quest for Development Since 1949* (New York: Oxford University Press, 1987), p. 226.

economic power in 1958 and 1970, though after 1960 some recentralization occurred to deal with the post-Leap crisis. As a result, the coastal provinces had considerable leeway to take advantage of their superior factor endowments. Therefore, both China's economic system and the Maoist policy of self-reliance eventually served to undermine the policy of eradicating regional industrial imbalance through centrally directed investments. Within this political frame-

work, higher productivity in the coastal region enabled the coast to outproduce the interior despite the higher proportion of government investment going into the interior.

Thus, the central government's attempt to spread China's industrial facilities more evenly produced paradoxical results. The improvement in equity came at the expense of efficiency since the national economy would have grown more quickly if investment were made in terms of efficiency. While the orthodox Chinese position holds that 30 years' construction resulted in a more evenly spread industrial distribution, some influential Chinese economists and policy-makers have drawn two major lessons from the 1953–80 experiences.

First, citing Soviet and American experiences in expanding their industrial base from one part of the country into another as an extremely long-term and arduous process, Liu Guoguang *et al.* have concluded that "seeking to build up interior industries within a short time, without developing the old bases of coastal industry, was unrealistic."<sup>25</sup> For them, economic policy-making must be based on certain "objective laws" of development. Haste only makes waste. The allocation of limited development funds essentially represented a zero-sum game. The rush to invest in the interior came at the expense of the transformation and modernization of coastal industries and therefore hindered the development of both and harmed the national interest.

Secondly, Maoist development as well as self-reliance policies committed the sin of disregarding the basic idea of comparative advantage.<sup>26</sup> Xue Muqiao, for example, dismissed the [investment] construction policy as "erroneous."

If the comparative advantages of [backward] regions had been systematically developed in the past 30 years, there would not have been such shortages of raw materials in the advanced industrial regions, and light industry would have developed to a greater extent. Income of backward regions also would have greatly increased.<sup>27</sup>

This attack on the Maoist regional development policy is intimately tied to the post-Mao re-evaluation of China's overall development strategy during the Maoist period. That strategy combined features of a Stalinist development strategy with Maoist ideals of egalitarianism and self-reliance but ended in the worst of both worlds. Both have

25. Liu Guoguang *et al.*, *Zhongguo jingji fazhan zhanlue wenti yanjiu* (*A Study of the Question of China's Economic Development Strategy*) (Shanghai: Shanghai renmin chubanshe, 1984), pp. 269–70. See also, Qingyu Shao, "The issues in regional planning in China," in Karlheinz Hottes, Derek R. Diamond and Wu Chuan-chun (eds.), *Regional Planning in Different Political Systems* (Stuttgart: Erdmann in K. Thiene-manns Verlag, 1985), p. 100–108.

26. Liu Guoguang *et al.*, *China's Economic Development Strategy*, pp. 270–72. An excellent analysis of the Maoist self-reliance policy is found in Carl Riskin, *China's Political Economy*, Ch. 9.

27. Xue Muqiao, *Current Economic Problems in China*, ed. and trans. by K.K. Fung (Boulder: Westview Press, 1982), p. 126.

been discredited after Mao's death. Dong Fureng and other Chinese economists now regard the Maoist development strategy as having seriously hurt the improvement of economic results (efficacy) in China by consuming excessive amounts of inputs, by causing serious disproportion in investment at the expense of light industry and services, and by retarding technological progress.<sup>28</sup> Consequently, the post-Mao leadership has been engaged in a constant battle to improve the Chinese economy on all these fronts. In regional terms, as the next section will show, the new development strategy has meant emphasis on comparative advantage and therefore the development of the coastal region. It is a recipe for uneven regional development.

### *Comparative Advantage: Post-Mao Regional Development Strategy*

China's post-Mao economic reform started with a negation of the initiative-stifling policies of the Cultural Revolution. So far, the reform has dismantled the commune system and instituted a range of industrial reform policies.<sup>29</sup> The crucial issue for Chinese leaders and scholars alike has been how to increase efficiency and innovation in every aspect of the Chinese economy ("to enliven the economy," as the Chinese are fond of saying) to enable China to catch up with her burgeoning neighbours. China's post-Mao regional development strategy is clearly efficiency orientated.

China's post-Mao regional development strategy has gradually evolved into a coast-orientated one. The central government is now willing to allow and help the coastal region to surge ahead of the others and become internationally competitive. The new strategy has four components. First, it assigns each region a special role, taking account of each region's factor endowments – or comparative advantage. Secondly, a series of preferential policies is granted to the coastal region, enabling it to attract most of the foreign investment, along with the advanced technology and management skills embodied in such investment. Thirdly, present central government policy towards the poorer areas has been orientated towards the more pragmatic objective of enabling the poor to feed themselves. Fourthly, the government appears to have put its faith in the promised diffusion or "trickle-down" of growth from the coastal region to the other regions. To achieve this, the centre has been a strong advocate of self-interested co-operation across cities, provinces and regions.

Comparative advantage is the central concept in post-Mao regional

28. Dong Fureng, "Development theory and problems of socialist developing economies," in Gustav Ranis and T. Paul Schultz (eds.), *The State of Development Economics: Progress and Perspectives* (Oxford and New York: Basil Blackwell, 1988), pp. 235–41.

29. See Harry Harding, *China's Second Revolution: Reform After Mao* (Washington, D.C.: The Brookings Institution, 1987); Gene Tidrick and Chen Jiyuan (eds.), *China's Industrial Reform* (New York: Oxford University Press for The World Bank, 1987).

development policy. On the one hand, it advocates that each region specializes in what it is most able to do. On the other, it advocates that "the whole country is but one chessboard," that is, the regional division of labour is in the national interest, even if one region gets ahead of the others.<sup>30</sup> To quote Xue Muqiao:

Within China, advanced and backward regions must specialize. If everybody wants to be complete and self-sufficient, then no one can develop a comparative advantage. Backward regions should fully exploit their strengths by developing agriculture, livestock industry, forestry, fishery, etc. They should start with providing raw materials, and advance gradually toward rough processing and refined processing.<sup>31</sup>

The idea of comparative advantage is enshrined in China's Seventh Five-Year Plan. The coastal region will "strengthen the technological transformation of traditional industries and . . . develop knowledge- and technology-intensive and high value-added consumer products industries."<sup>32</sup> It will gradually transfer high energy-consuming and high pollution-producing factories into other regions.<sup>33</sup> The central region will concentrate on producing energy and raw materials, certain machinery and electrical products, and agricultural produce.<sup>34</sup> Finally, the western region will emphasize agriculture, forestry, animal husbandry and transport, and selectively develop its energy and mineral resources and certain local processing industries.<sup>35</sup> In short, the emphasis is on efficiency rather than regional self-sufficiency.

The centre in the 1980s reversed its investment bias towards the interior (see Table 2) and adopted a series of policies that clearly favour the coastal region's economic development. The "coastal development strategy" adopted by the CPC Central Committee and the State Council in March 1988 is but the latest incarnation of a long-standing policy.

Some expressions of the policy include the following. 1. Since 1979,

30. See Xue Muqiao, *Economic Problems in China*, pp. 125–28; also Liu Guoguang et al., *China's Economic Development Strategy*, pp. 275–76.

31. Xue Muqiao, *Current Economic Problems in China*, p. 126. Many other Chinese scholars share Xue's views. See e.g., two collections of papers: *Zhongguo gongye he diqu jingji fazhan zhanlue yanjiu lunwen ji* (*Research Papers on China's Industrial and Regional Economic Development Strategies*) (Beijing: Jingji guanli chubanshe, 1985); Tian Fang and Lin Fatang (eds.), *Zhongguo shengchanli de heli buju* (*The Rational Distribution of China's Productive Forces*) (Beijing: Zhongguo caizheng jingji chubanshe, 1986).

32. *The Seventh Five-Year Plan*, p. 92.

33. For concrete examples of coastal planning in Shanghai and Guangdong, see Chen Minzhi (ed.), *Shanghai jingji fazhan zhanlue yanjiu* (*A Study of Shanghai's Economic Development Strategy*) (Shanghai: Shanghai renmin chubanshe, 1985); *Shijie xinjishu geming yu Shanghai de duice* (*The New World Technological Revolution and Shanghai's Counterstrategy*) (Shanghai: Shanghai shehui kexueyuan chubanshe, 1986); and *Guangdong jingji fazhan zhanlue yanjiu* (*A Study of Guangdong's Economic Development Strategy*) (Guangzhou: Guangdong renmin chubanshe, 1986).

34. *The Seventh Five-Year Plan*, p. 95.

35. *Ibid.* p. 98.

the Laws on Sino-Foreign Joint-Venture Enterprises and other laws and regulations designed to attract foreign investment have been promulgated. 2. In 1979 four Special Economic Zones (SEZs) in Shenzhen, Zhuhai, Shantou (in Guangdong), and Xiamen (in Fujian) were established. In early 1985 the Lower Yangtze delta, the Pearl River Delta and the Xiamen-Zhangzhou-Quanzhou Triangle were designated as Coastal Economic Development Zones (CEDZs). In early 1988 Hainan Island (formerly part of Guangdong province) became a province and in effect China's largest SEZ to date. 3. In 1984, 14 coastal cities were declared open cities for foreign investment.<sup>36</sup> Since then, numerous areas in the coastal region have been designated "economic open areas" that enjoy special policy advantages in attracting foreign investment.<sup>37</sup>

Both 2 and 3 favour the coastal region exclusively. The SEZs, open cities and CEDZs have been granted special administrative and economic powers. Firms located within these special areas, be they Chinese or foreign, enjoy tax privileges (including import and export taxes) and other benefits. Most of the cities listed above have also opened up special technology development zones to facilitate R&D as well as production.<sup>38</sup> Briefly stated, the objective of setting up these special zones or cities is to attract foreign capital, technology and managerial know-how, and to increase exports.

The centre's policy towards the poor areas has also experienced a significant change. While traditionally grant or relief money and goods have been distributed through administrative organs in an egalitarian manner within the locality, the central government now encourages people in poor areas to form "economic entities, service organizations and enterprises" so that they will be able to "shake off poverty" and have a stable income later on.<sup>39</sup> To this end, the central government has not only retained the traditional relief money but earmarked substantial low-interest loans, called the Development Fund for Aiding Undeveloped Areas, to help the poor to start their own businesses. Moreover, the poor provinces, principally in the western region, will continue to enjoy exemption from revenue contributions to the central budget.

The centre also now urges more developed areas to help better the lot of the poorer areas. The Seventh Plan stipulates:

Continue to organize developed regions and cities to send suitable aid to old revolutionary, minority nationality, border, and poor areas (*lao, shao, bian*,

36. These cities are: Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang, Beihai.

37. Zhongguo Xinwen She, 4 April 1988, in FBIS-CHI-88-066, 6 April 1988, p. 44.

38. Waiwen Chubanshe Zhongguo Qingkuang Bianjishi, *Zhongguo gailian (China Survey)* (Beijing: Renmin chubanshe, 1987), pp. 294-99.

39. Chen Junsheng, "Sum up new experiences, reform the work of helping poor areas—two questions concerning the economic development of poor areas in nine southern provinces and regions," *Renmin ribao (People's Daily)*, 14 November 1987, p. 5; in FBIS-CHI-87-224, 20 November 1987, p. 26-32.

qiong). Arouse the forces of the whole society, adopt myriad forms, to help [these areas] through education (*zhili kaifa*) and technical consultancy.<sup>40</sup>

Although the government has achieved some tangible results in carrying out its policy towards the poorest areas, considerable problems still remain.

The centre now urges the coastal region to co-operate with the interior regions in various forms, based on mutual benefit. The rationale for this policy is consciously to enhance the trickle-down effect from developed to less developed regions.

Chinese economists have generally taken two different positions on regional development in recent years: the "ladder-step doctrine" and the "anti-ladder-step doctrine." According to the ladder-step doctrine, the different regions are like steps on a ladder; the coastal region is akin to a higher step. Since the three regions differ considerably in terms of infrastructure, capital, technical level, management skill and economic efficiency, national development strategy should first concentrate on developing the more advanced coastal region by providing it with adequate capital, energy and foreign currency. This is necessary if China is to modernize and catch up with its neighbours in economic development. Only after the coastal region has become sufficiently developed, will attention be turned to the central region. Eventually the western region will be reached after the coastal and central regions have been developed.<sup>41</sup>

The logic of the ladder-step argument is as follows. The coastal region already possesses significant industrial qualifications; hence it is easier to turn the coastal region into a processing centre for inland raw materials and China's export base. Moreover, since the coastal region already possesses higher levels of technology and managerial sophistication than the others, it would be easier for it to absorb the imported advanced technology and develop indigenous capabilities for technical and economic innovations. Then it will be able to diffuse that technology throughout the economy. Therefore, it is important to concentrate on developing the coastal region first.

In essence, the "ladder-step doctrine" is akin to the liberal argument that development will diffuse gradually from the centre to the periphery.<sup>42</sup> The many vibrant coastal cities will then become "engines of growth" or "growth poles," pulling the whole country

40. *The Seventh Five-Year Plan*, p. 103.

41. Yun Mei and Yi Xing, "1986 nian Zhongguo shehuizhuyi jingji lilun ruogan wenti yanjiu gaikuang (*Summary of Research in 1986 on Many Problems in China's Socialist Economic Theory*)," in *Zhongguo jingji nianjian* [*Chinese Economic Yearbook*] (Hong Kong: Zhongguo jingji nianjian yixian gongsi, 1987), p. IX-10; Yu Jianxun, "Woguo neidi de waimao fazhan zhanlue" ("The interior area's foreign trade development strategy in our country"), in *Zhongguo duiwai jingji maoyi nianjian: 1987* (*Yearbook of China's Foreign Economic Relations and Trade: 1987*) (Hong Kong: Zhongguo guangao yixian gongsi, 1987), p. 686.

42. For a summary and critique of the liberal economic theory of development, see Robert G. Gilpin, Jr., *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987), esp. Ch. 7.

along the paths of economic development. Advocates of this doctrine appeal to the national interest. While they emphasize coastal development in the short term, they promise future diffusion or trickle-down for the interior. For them, China's socialist system will make such a development process smooth and beneficial to all.

The ladder-step doctrine has clearly been on the ascendancy within the Chinese leadership, as the data below will show. However, not all theorists or policy-makers agree with it, for obvious reasons. For lack of a better term, I will call their views the "anti-ladder-step doctrine." It has two major components. Coached in a different understanding of the national interest, it argues, first, that the interior must receive the same emphasis as the coastal region in industrial development because only in this way will the interior be able fully to exploit its energy and other resources and support the coastal region's outward-orientated economic strategy. Secondly, and perhaps more to the point, proponents argue that the interior already lags behind the coast in the degree of development. As the coastal region receives various special privileges for it to develop first, the coast-interior development gap will further widen. A greater gap will harm the interests of both the interior and the coastal region because then the interior's ability to support the coastal region with raw materials and energy will be limited.<sup>43</sup> Hence it is necessary for the coast and the interior to develop in step.

Lurking behind the anti-ladder-step doctrine is the fear that "the western region will forever lose the possibility of take-off," as two Chinese writers put it recently. However, advocates of this doctrine have so far been unsuccessful in coming up with a coherent development strategy for the western region.<sup>44</sup>

The Chinese central leadership has so far favoured a development strategy akin to that advocated in the ladder-step doctrine. This strategy places first priority on coastal development by designating open cities, SEZs and other development zones, as enumerated above. The coastal region, as then Premier Zhao Ziyang explained in 1984, will "radiate both inward and outward" (*duinei fushe he duiwai fushe*) and become a pivot in developing the whole country.<sup>45</sup> The centre is unable to invest large amounts in areas such as Xinjiang (in the western region) in the short term; these areas have to wait until at least the 1990s.<sup>46</sup> As one Chinese scholar puts it: "It is impossible to

43. Yu Jianxun, "Woguo neidi de waimao fazhan zhanlue" ("The interior area's foreign trade development strategy in our country"), p. 686.

44. Wang Wei and Guo Fansheng, "Zhongguo dong xi bu fazhan de xianshi" ("The reality of development of China's eastern and western regions"), *Renmin ribao* (overseas edit.), 10 March 1988, p. 8.

45. Zhao Ziyang, "Guanyu yanhai diqu jingji fazhan de jige wenti" ("On several questions relating to economic development of the coastal region"), in Tian Fang and Lin Fatang (eds.), *Rational Distribution of China's Productive Forces*, pp. 26–27.

46. Zhao Ziyang, "Kaifa Xinjiang, kaifa daxibei, shi zhongyang de zhongyao zhanlue shexiang" ("Developing Xinjiang and the great north-west is an important, strategic tentative plan of the centre"), in Tian Fang and Lin Fatang (eds.), *Rational Distribution of China's Productive Forces*, p. 18.

eliminate these disparities within several decades.... A relative preference for the developed regions may be necessary to ensure national growth."<sup>47</sup>

In order to mitigate to some degree the growing regional disparities, the central government has been an ardent advocate of regional co-operation through, among other forms, domestic joint ventures, compensation trade, investment in the interior by companies from the coast, and technical exchanges.<sup>48</sup> The Seventh Plan devotes a chapter to regional co-operation and economic networks.<sup>49</sup> However, many, if not all, of the co-operation agreements have been attempts by coastal companies to secure adequate supplies of raw materials, since localities have become increasingly reluctant to relinquish them without adequate compensation.<sup>50</sup>

### *Uneven Regional Development*

Post-Mao regional development strategy is only part of a larger reform package. Aimed at drawing out the initiative of both individuals and localities, the reform was a reaction to the destructive policies of the late Maoist period, which are denounced for bringing China to the brink of chaos. Under reform, the coastal region, owing to its superior geographical location and factor endowments, has assumed a pivotal role in fulfilling the Chinese leadership's ambition of making China into a global economic power: it should not only excel within China but should also compete on the world market. In order to understand the post-Mao regional development policy in practice, let us start with the investment patterns.

First, Table 2 reveals that the coastal share of central government investment in fixed assets has increased gradually since the late 1970s. In the early 1980s the coastal region accounted for about half of all central government investment, in contrast to the little over 40 per cent of central investment the coastal region had received over the 1953–80 period. Although this does not mean that the centre is taking money from elsewhere in order to invest in the coastal region, it does indicate a significant change in the centre's regional investment policy. This change is apparently favourable to coastal economic development.

47. Qingyu Shao, "The issues in regional planning in China," p. 107.

48. Sun Zhibo, "Diqu jingji jishu xiezuo de jige wenti" ("Several questions relating to regional economic and technical co-operation"), *Nankai jingji yanjiu* (*Nankai University Economic Research*), No. 2 (1985), pp. 26–30; Guo Hongmao, "Diqu jingji jishu xiezuo shi yu jinhua jingji teyou de yunxing jizhi" ("Regional economic and technical co-operation is a special operating mechanism of a planned commodity economy") *Nankai jingji yanjiu*, No. 1 (1986), pp. 12–16.

49. *The Seventh Five-Year Plan*, Ch. 20.

50. Christine Wong, "Material allocation and decentralization: impact of the local sector on industrial reform," in Elizabeth J. Perry and Christine Wong (eds.), *The Political Economy of Reform in Post-Mao China* (Cambridge, Mass.: The Council on East Asian Studies, Harvard University, 1985), pp. 274–75.

Table 5: Total Investment in Fixed Assets (Rmb 100 million)

Year	National* Total	Coast		Interior	
		Amount	% of Total	Amount	% of Total
1981	408.20	207.93	50.94	200.27	49.16
1982	790.67	401.80	50.82	388.87	49.18
1983	1,303.21	688.76	52.85	614.45	47.15
1984	1,750.69	925.24	52.85	825.45	47.15
1985	2,417.57	1,274.83	52.73	1,142.74	47.27
Total:	6,670.34	3,498.56	52.45	3,171.78	47.55

Note:

\*N.E.C. has been deducted from the total. N.E.C. refers to non-region-specific investment such as purchases of equipment by various ministries under the State Council (e.g., collective military goods), or investment in transprovincial projects.

Total investment in fixed assets includes both investments by governments of various levels (central, provincial, municipal, etc.) and investments by collectives and private businesses.

Source:

Calculated from State Statistical Bureau, *Statistical Yearbook of China* (Hong Kong: Economic Information and Agency; Oxford: Oxford University Press; various years).

Secondly, one of the major characteristics of post-Mao reform has been the decentralization of economic decision-making powers from the centre to lower levels. In economic terms, this has resulted in increased revenues retained by lower administrative levels. Moreover, the overall political and economic framework of reform has been to encourage private and collective businesses based on local economic conditions. Private and collective factories have grown twice as fast as the state sector and they are particularly lively in the coastal region. If investments by lower levels of government and the private sector are included, the coastal region's share of total investment in fixed assets has accounted for almost 53 per cent of the total since 1983 (Table 5).

Thirdly, domestic investment has not made up the whole investment picture as it did in the Maoist era. Part of China's open-door policy has been to attract foreign investment through joint ventures, co-operative enterprises and, more recently, wholly foreign-owned subsidiaries. Table 6 shows that China actually made use of over US\$5 billion in foreign investment by 1987. This is a considerable amount in the Chinese economy. Most of that investment went into the coastal region, with Guangdong alone hosting over 65 per cent of all foreign investment enterprises in China. This is to be expected because of the coastal region's geographical location, its multifarious overseas connections, and its superior business environment *vis-à-vis* the other regions. The importance of foreign investment lies not merely in the dollar amounts but also in the investment-embodied technology and managerial skills that China wants to acquire. Again, such a policy clearly favours the coastal region.

Table 6: Foreign Investment (1979-87) by Province and Region

	No.* of Cases	% of Total	Value of Investment (U.S. \$1 million)	
			Contract Basis	Actual
Liaoning	212	1.99	779.2	145.0
Beijing	261	2.44	1,651.2	640.0
Tianjin	230	2.15	242.8	150.4
Hebei	103	0.96	98.4	19.5
Shandong	126	1.18	336.0	n.a.
Jiangsu	194	1.82	219.9	88.9
Shanghai	291	2.73	1,842.6	366.4
Zhejiang	153	1.43	158.7	62.6
Fujian	1,023	9.58	821.9	300.5
Guangdong	6,970	65.29	9,188.3	3,112.4
Guangxi	287	2.69	384.1	120.0
Sub-total:	9,850	92.29	15,723.1	
Heilongjiang	97	0.91	103.0	13.2
Jilin	45	0.42	95.1	n.a.
Inner Mongolia	15	0.14	48.8	12.6
Shanxi	19	0.18	5.7	2.8
Henan	78	0.73	224.8	16.4
Anhui	54	0.51	31.9	n.a.
Hubei	78	0.73	55.9	36.1
Jiangxi	66	0.62	74.1	14.5
Hunan	99	0.93	67.5	9.7
Sub-total:	551	5.16	706.8	
Xinjiang	17	0.16	62.0	34.0
Gansu	19	0.18	23.6	4.1
Ningxia	2	0.02	2.0	n.a.
Shaanxi	110	1.03	1,029.2	121.9
Qinghai	4	0.04	4.2	0.5
Sichuan	73	0.68	140.7	42.9
Guizhou	24	0.22	12.8	3.7
Yunnan	23	0.22	20.6	11.1
Tibet	2	0.02	1.2	1.2
Sub-total:	274	2.57	1,296.3	
Total:	10,675	100.02	17,726.2	5,330.2

Note:

\*Includes joint ventures, co-operative enterprises, and wholly foreign-owned subsidiaries.

Sources:

Adapted from *Shanghai Industrial and Economic Journal*, 8 July 1988; quoted in *China Newsletter*, No. 76 (1988), p. 23.

For the present purpose, we can safely conclude the following. In the post-Mao period, the central government, both by increasing the coastal share of central investment and by creating a political framework within which the coastal region can make use of its superior endowments and other conditions, has made it possible for the coastal region to out-invest the interior. We can expect this factor to be crucial in propelling the coast to pull further ahead of other regions in economic development.

A look at the regional GVIO shares confirms the above proposition (Table 7).<sup>51</sup> Despite some fluctuations, this data series clearly establishes the trend that the coastal region's share of the national GVIO has increased in the years covered; it reached 61.20 per cent of the total by 1987.<sup>52</sup> This is clearly due to the policies established by the centre if we recall that during the Maoist period the coastal region's share of national GVIO was reduced from less than 70 per cent to about 60 per cent in fewer than three decades (Tables 3 and 7) as the bulk of centrally controlled investment went to the interior. Further, if one includes the value of agricultural output (i.e. to figure in the rapid growth of rural industries as well as agriculture) and use the regional GVIAO share, the trend is even more robust (Table 8).

51. *Beijing Review* carried the following statistics, which are even more in keeping with the trend I have identified:

Share of national GVIO by region

Region	Coastal	Central	Western
1980	60.0	27.3	12.7
1985	61.2	26.5	12.3

The statistics are from *Beijing Review*, No. 49 (8 December 1986), pp. 21–24; in John L. Scherer (ed.), *China: Facts and Figures Annual* (Academic International Press, 1988), p. 134.

52. One is hard put to fully explain the decline in coastal share of GVIO in 1982–83 because of the lack of data for the pre-1981 period. However, a large proportion of the decline might be attributed to the centre's efforts to curb investment and restrain demand in the early 1980s. As a result, the national GVIO annual increase (based on 1970 prices) was as follows:

	1979	1980	1981	1982	1983	1984	1985
Incr. over prev. yr. (%)	8.5	8.7	4.1	6.8	10.5	14.0	18.0

Source:

Carl Riskin, *China's Political Economy*, pp. 368–69.

As Carl Riskin points out, gross industrial output grew more slowly in the early 1980s than the 11.4% per year for 1952–78 or the 9.4% per year for 1965–78. This low growth period can be regarded as a kind of engineered mini-recession. As a result, the more developed area, i.e., the coastal region, suffered more than the less developed areas.

Table 7: Share of Gross Value of Industrial Output (GVIO) by Region

Region	1981	1982	1983	1984	1985	1986	1987
Coastal Region	60.49	59.97	59.49	59.78	59.39	60.41	61.21
Central Region	27.25	27.61	27.62	27.31	27.58	27.34	26.55
Western Region	12.26	12.62	12.89	12.91	13.03	12.25	12.24
Total:	100.00	100.00	100.00	100.00	100.00	100.00	100.00

*Sources:*

Calculated from State Statistical Bureau, *Statistical Yearbook of China* (Hong Kong: Economic Information and Agency; Oxford: Oxford University Press; 1981, 1983-87); Chūgoku Kenkyūjo Hen, *Chūgoku nenkan: 1988*; and *China Statistics Monthly*, pre-publication issue (Chicago, IL: University of Illinois Press, March 1988).

The centre in the post-Mao period has exerted minimal regional redistributive efforts compared with the Maoist period. Indeed, owing to the decentralization of economic power, centrally budgeted government investment in state enterprises has steadily declined to 38 per cent by 1984 from the 1978 high-point of 66 per cent.<sup>53</sup> Thus, the capacity the centre has at its disposal to redistribute resources has declined.

In the reform period all regions in China have seen significant economic growth, but regional growth has been and will continue to be uneven and the gap between the regions will perhaps widen at an accelerating rate.<sup>54</sup> If present conditions hold and barring severe and prolonged economic austerity measures, the coastal region will continue to outgrow the other regions. As a result, the coastal region's share of the national GVIO will continue to expand, though the yearly increase in the share is difficult to determine precisely owing to fluctuating domestic and international politico-economic conditions and the short duration of the data series (one might speculate, however, that the coastal share of national GVIO will increase between 0.1 and 0.4 per cent per year).

Even within the coastal region, not all areas grow equally well. Jiangsu, Guangdong and Fujian provinces, among others, are evidently the major beneficiaries of the post-Mao regional development policy. In Guangdong reportedly more than 10,000 enterprises were processing materials supplied by foreign businesses for export in 1988. These enterprises earned over US\$1.6 billion in processing fees

53. Carl Riskin, *China's Political Economy*, p. 364.

54. For overall assessments of China's economic reform, see Dwight H. Perkins, "Reforming China's economic system," *Journal of Economic Literature*, Vol. 26 (June 1988), pp. 601-645.

**Table 8: Share of Gross Value of Industrial and Agricultural Output (GVIAO) by Region**

<i>Region</i>	<i>1981</i>	<i>1982</i>	<i>1983</i>	<i>1984</i>	<i>1985</i>	<i>1986</i>
Coastal Region	55.72	55.17	55.12	55.63	56.28	56.52
Central Region	30.11	30.14	30.15	29.79	29.39	29.44
Western Region	14.17	14.69	14.73	14.58	14.33	14.04
Total:	100.00	100.00	100.00	100.00	100.00	100.00

*Sources:*

Calculated from State Statistical Bureau, *Statistical Yearbook of China* (Hong Kong: Economic Information and Agency; Oxford: Oxford University Press; 1981, 1983–87); Chūgoku Kenkyūjo Hen, *Chūgoku nenkan: 1988* (*China Yearbook*).

in 1987.<sup>55</sup> The *Far Eastern Economic Review* has already started to refer to Guangdong as Asia's "fifth dragon."<sup>56</sup> In 1985 the four SEZs in Guangdong and Fujian registered a GVIO growth rate of nearly 70 per cent over 1984, far above the GVIO growth rate of the whole country or the rest of the coastal region.<sup>57</sup> In essence, uneven regional development may characterize China's development strategy for quite some time to come despite the government's faith in the diffusion effect of growth.

*Implications of the Uneven Development Strategy*

Any economic development strategy is political. As I have shown, while the Maoist development strategy was heavily redistributive and interior-orientated, China's new development strategy enables the coastal region to derive more benefits than the others. Indeed, within the post-Mao political framework, even if the interior were granted the same preferential policies, owing to unequal regional conditions and geographical factors, it would not fare as well as the coastal region does without the visible hand of the centre. The central government hopes that growth in the coastal area will diffuse into the rest of the country. But how soon, how much, and when will this trickle-down process happen are crucial questions. It is therefore essential to ask: what are the political and economic implications of China's new approach to regional industrial development?

55. Gao Shangquan, "The key to implementing the strategy of economic development for coastal areas lies in deepening reform," *Qiushi* (*Seek Truth*), No. 6 (16 September 1988), pp. 16–20; trans. in FBIS-CHI-88-189, p. 54.

56. Lousie do Rosario, "Asia's Fifth Dragon," *Far Eastern Economic Review*, Vol. 142, No. 49 (8 December 1988), p. 62. The extraordinary changes in Guangdong are chronicled in Ezra F. Vogel, *One Step Ahead in China: Guangdong Under Reform* (Cambridge, MA: Harvard University Press, 1989).

57. Figures for the SEZs are calculated from State Statistical Bureau, *Statistical Yearbook of China* (Hong Kong: Economic Information and Agency and Oxford: Oxford University Press, various years).

The Chinese leadership started the reforms because of the policy failures in the Maoist period. It must be recognized that so far the reforms have created benefits for most people and most provinces. Economic growth has been widespread all over the country. It is true that the interior has registered a lower GVIO growth rate relative to the coastal region. But this should not obscure the fact that the interior provinces have also experienced rapid economic growth in the post-Mao period. Even if only the coast had benefited, the "hope" factor, or tunnel effect, could likely have kept the interior quiescent for certain period.<sup>58</sup> Consequently, as long as the general direction of reform is supported by sustained growth, it is reasonable to argue that the current policies can be maintained. Therefore, under present conditions there is no basis to predict that an inland coalition or faction might revolt against the development policy, and therefore the reform.<sup>59</sup>

Nevertheless, the post-Mao regional development strategy cannot guarantee a harmony of interests among the regions. The post-Mao strategy of concentrating on developing the coastal region first is premised on a transmission of growth from the coastal region to the interior. This promise of trickle-down, however, may not be realized for quite some time to come, especially when we consider that the coastal region itself is struggling to catch up with the NICs and developed countries. A whole body of literature supports this argument. As Hirschman and others have noted, not only does growth have the tendency to be concentrated around some starting points, it also has the ability and tendency "to round itself out for a long time within some subgroup, region, or country while backwardness retains its hold elsewhere."<sup>60</sup> Transmission of development is not automatic. The implications of this thesis are pointed out most forcefully by John Friedman in his *A General Theory of Polarized Development*. He argues: development is a process of innovation which is

58. The "tunnel effect" is put forward by Albert Hirschman. He used the analogy of a driver in a jammed tunnel. If the driver sees the other line moving, he will feel his situation has improved too. Apparently, he cannot wait forever. That waiting period of quiescence, Hirschman points out, is determined by many factors. We cannot determine in advance when the period is going to end with the driver resorting to some sort of action. See Albert O. Hirschman, "The changing tolerance for income inequality in the course of economic development," in S.P. Singh (ed.), *Underdevelopment to Developing Economies* (Bombay: Oxford University Press, 1978), pp. 519-43; orig. pub. in *Quarterly Journal of Economics* (November 1973).

59. On this point, I cannot agree with part of the argument contained in a seminal article by Susan Shirk. She groups the inland provinces, heavy industry and the central bureaucracy into a "communist [read anti-reform] coalition," and the coastal provinces, light industry and local officialdom into a reform coalition. She presumably would have trouble classifying Shanghai: a coastal provincial government, with a concentration of both heavy and light industries. Susan Shirk, "The politics of industrial reform," in Perry and Wong (eds.) *The Political Economy of Reform in Post-Mao China*, pp. 195-221.

60. Albert O. Hirschman, *The Strategy of Economic Development* (New Haven: Yale University Press, 1958), p. 184.

to transform the established structure of society by attracting creative or innovative personalities into the enclaves of accelerated change; by encouraging the formation of new values, attitudes, and behavior traits consistent with the innovation; by fomenting a social environment favorable to innovative activity; and by bringing into existence yet further innovations.<sup>61</sup>

According to Friedman, conditions especially favourable to innovation are generally found in large and rapidly growing urban systems. Moreover, successful innovation tends to increase the potential power of innovators. As a result, the centres of innovation tend to penetrate and dominate the periphery through trade, production and market relations. In the meantime, new desires and frustrations will grow in the peripheral areas and give rise to demands for autonomy. This may lead to a prolonged conflict with the core.<sup>62</sup>

The Chinese central government does not seem to be oblivious to these implications, for it has not only promised that coastal development will bring growth to the interior, but has encouraged inter-provincial co-operation through investment and the transfer of technology from the coast to the interior in order to speed up the transmission of development. However, our earlier analysis of the changes in the regional GVIO shares indicates that the centre has not succeeded in this regard so far. Indeed, many of the co-operative arrangements between coastal and interior companies have been attempts by coastal companies to secure sources of raw or semi-processed materials. In short, a "bargaining regime" is characteristic of the reforms.<sup>63</sup> Except for some high-priority policies and projects such as the nuclear weapons programme, most of the economic, technical and social matters involve considerable bargaining between the centre and the provinces, among the central ministries and provinces involved, and other actors. The post-Mao development strategy has intensified such bargaining on at least two counts.

First, on the one hand, rapid industrial growth in the post-Mao period has markedly strained the supply of raw materials, much of which travels from the interior to the coastal region. On the other, despite the increased use of market mechanisms in the supply of materials, the power of local governments to regulate the areas under their jurisdiction has increased owing to the further decentralization of economic power to lower administrative levels in the reform period. Whereas development policy was generally backed up by central financial power in the Maoist period, the centre in the post-Mao era generally relies on the provinces themselves to implement the development policy on the basis of their own resources. How well a province (or a lower level of government) fares depends on how well it marshals and

61. John Friedman, "A general theory of polarized development," in Niles Hansen (ed.), *Growth Centers in Regional Economic Development* (New York: The Free Press, 1972), p. 87.

62. *Ibid.* pp. 90-99.

63. David M. Lampton, "Chinese politics: the bargaining treadmill," *Issues and Studies*, Vol. 23, No. 3 (March 1987), pp. 11-41.

uses resources, including raw materials, within its control. This has increased the incentives for local governments to keep and process the raw materials within its borders in order to gain the value added themselves. In consequence, a peculiar phenomenon, "economic warlordism," is born. In one extreme case, some Guangdong companies used high monetary inducements and even army vehicles to transport raw silk out of Sichuan, in the western region, where the various levels of government issued decrees to prohibit such outflow.<sup>64</sup>

Such intense competition for raw materials has encouraged hoarding and price hikes. Therefore, it is not surprising to find that many local governments in the interior demand from the coastal provinces compensation, such as new investment or transfer of technology in order to get the most out of their raw materials. Shanghai, for example, in 1986 started to invest 110 million *yuan* in an iron mill and six non-ferrous metals mines in Liangshan Yi autonomous prefecture, one of China's least developed areas, in Sichuan province, in return for supplies of pig iron, zinc and copper. The other coastal provinces have done much the same.<sup>65</sup> Seen at an aggregate level, such bargaining involves the interior and the coastal region on the opposite sides of the bargaining table.

Secondly, the centre's preferential policies to the various coastal areas and the rapid economic growth in these areas have not gone unnoticed by leaders in the interior. The announcement of the coastal development strategy in early 1988 only served to underscore this fact. As a result, it can be expected that the interior areas will bargain with the centre for more favourable policies or some sort of pay-off for themselves to be quiescent. For example, delegates from Sichuan at the National People's Congress (NPC) in March 1988 strongly endorsed a proposal to make Sichuan the first special economic zone in the interior.<sup>66</sup> Also at the NPC, officials from Inner Mongolia, Xinjiang, Gansu, Qinghai and Yunnan asked that the central government help their provinces develop. As the chairman of the Inner Mongolia Autonomous Regional Government, Buhe, put it:

I hope the central government will also step up the development of the central and western regions, particularly the border areas, to narrow the economic gap between these areas and the coastal areas.<sup>67</sup>

In order to allay the interior's fear of being left behind and gain political support for the development strategy, the State Council has reportedly considered a plan to designate three SEZs in Xinjiang, which borders on countries including the Soviet Union and

64. Xia Yang and Wang Zhigang, "Zhongguo jingji 'geju' xianxiang chutan" ("Preliminary investigations into China's economic 'warlordism'"), *Liaowang* (Hong Kong), No. 39 (26 September 1988), p. 3.

65. Xinhua She in English, 5 December 1986; in FBIS-China, 12 December 1986, pp. K4-K5.

66. Chengdu Sichuan Provincial Service, 29 March 1988; in FBIS-CHI-88-060, 29 March 1988, p. 19.

67. Xinhua She in English, 29 March 1988; in FBIS-CHI-88-062, p. 22.

Mongolia.<sup>68</sup> Other areas in the interior are vying with the coastal region in granting preferential policies. For example, both Jiangxi and Hunan in the central region have decided to set up experimental open economic zones with policies similar to those adopted in the coastal open areas.<sup>69</sup>

The centre's development strategy also structures its choice of policies towards the poor areas. At present, the central government is faced with persistent budget deficits as well as a decentralized economic decision-making environment which results in declining central control of investment resources. If the central government were to institute significant redistributive measures to alleviate regional disparities, it would have fundamentally to alter its development strategy. This the current leadership is apparently unwilling and perhaps unable to do. Therefore, by adopting its present development policy, the Chinese leadership's ability to alleviate regional disparities is limited.

Thus, present central policy towards the poor areas is aimed at the more pragmatic objective of bringing these areas out of poverty (by Chinese standards: per capita annual income 200 *yuan*). Accordingly, relief grants and low-interest loans are intended to enable the poor areas to sustain themselves by creating businesses and jobs so that the centre will *not* have to provide new grants or loans. According to Chen Junsheng of the State Council, the proportion of people lacking food and clothing (i.e. per capita income below 200 *yuan*) dropped from 61 per cent of the total number of peasant households to 11.3 per cent in 1987.<sup>70</sup>

The centre's policy towards the poor areas, however, is being undermined by at least three factors. First, government and Party administrative expenditures are higher in the poor areas than in the more developed areas. In Shaanxi province, government expenditures accounted for 19.55 per cent of its revenues in 1986, compared with the national average of 8.07 per cent.<sup>71</sup> Consequently, these poor areas have far fewer funds left for development. Secondly, "the intervention by multi-tier, low quality, and overstaffed governments" and a host of geographical, cultural and social factors reduced returns on investments and frighten potential investors away.<sup>72</sup> As a result, bank deposits in the poor areas, rather than being invested locally, find their way to the more developed central and coastal regions. In 1984 Guizhou alone exported over 700 million *yuan*, virtually equal to the financial subsidies from the central government.<sup>73</sup> Finally, poorer

68. Seth Faison, "Xinjiang fears coastal development rebound," *South China Morning Post* (Hong Kong), 6 April 1988, p. 7; in FBIS-CHI-88-066, p. 23.

69. Xinhua She Domestic Service in Chinese, 1 April 1988; in FBIS-CHI-88-068, pp. 42-43.

70. Chen Junsheng, "Sum up new experiences," pp. 27-28.

71. Xiang Dongfang, "A strategic option for political structural reform in economically underdeveloped areas," *Guangming ribao* (*Guangming Daily*), 29 August 1988, p. 3; in FBIS-CHI-88-184, 22 September 1988, p. 56.

72. *Ibid.*

73. Wang Xiaoqiang and Bai Nanfeng, *Furao de pinkun* (*Plenty of poverty*) (Chengdu: Sichuan renmin chubanshe, 1986), p. 101.

conditions in the underdeveloped area make it difficult to attract and keep talented personnel, thereby making development even more difficult. As a result, Chinese researchers often quote the so-called "Matthew effect": "For everyone who has will be given more, and he will have an abundance. Whoever does not have, even what he has will be taken from him."<sup>74</sup>

### *Conclusion*

The post-Mao Chinese leadership has come to adopt a radically different regional development strategy from that of the Maoist era. The Maoist development strategy emphasized regional industrial balance and sought to correct the inherited coast-interior "imbalance" by directing a large portion of industrial investment into the inland area. As a result, the interior's share of industrial assets increased rapidly.

However, the inland investment suffered from one glaring weakness: inefficiency. Despite its growing share of industrial assets, by the late 1970s, the interior continued to be out-produced by the coastal region. This is an important reason for the central government's switch to the uneven development strategy. The latter strategy allows differential development among the regions. It is based on the idea of comparative advantage. Indeed, the leadership has accepted the idea that growth is uneven and granted preferential policies to the coastal region so that it might develop faster and become the engine of growth for China. It is partly export-orientated. But, more fundamentally, it is aimed at raising the technological level of China's industries. The coastal region as "China's engine of growth" is orientated towards technological change and modernization, trade is only part of the means for achieving that end.<sup>75</sup>

The result of the new strategy, as is revealed through data presented here, is that both domestic and international investment in the coastal region has increased dramatically in the early 1980s. Increased investment plus its superiority in technology, management, research and development, and other factors have propelled the coastal region to expand its share of the national GVIO by the mid 1980s, thereby increasing the relative regional disparities.

Fear of being left behind the coastal region has prompted interior provincial leaders to ask for preferential policies. It has intensified the bargaining for raw materials and investment between interior and coastal provinces. Inadequate supply of raw materials to the coastal enterprises is, I believe, one of the most important reasons behind the central leadership's decision to adopt the coastal development

74. *The Holy Bible, New International Version* (New Jersey: International Bible Society, 1984), Matthew, Ch. 25: Verse 29.

75. This is in accordance with positions of many theorists, one of the most prominent of them is W. Arthur Lewis, *The Evolution of the International Economic Order* (Princeton: Princeton University Press, 1978), Ch. 10.

strategy in early 1988 and let coastal enterprises process imported raw materials and then re-export the finished products.

Finally, as the centre has decentralized economic decision-making power to lower levels of government, its reach is limited compared with that in the Maoist era. Therefore, without a fundamental change in the distribution of political power between the centre and lower levels of government, the centre has only limited capability in alleviating the regional disparities that are arising.