

# Regional Development in China: Large Scale Development of China's Western Region

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# **Regional Development in China: Large Scale Development of China's Western Region**

Lily Y. Kiminami and James R. Simpson

## **Introduction**

Gradual elimination of economic disparities in regional development, and realization of common prosperity of the entire nation have become important strategic tasks faced by China in its modernization process. Although the three generations of New China's leadership (Mao Zedong 1949-1978, Deng Xiaoping 1979-1994, Jiang Zemin 1995-present) have all attached great importance to this task and conducted active explorations in this regard, the strategies have been quite different from each other. Their strategies have changed from a "balancing policy," to a "favorable treatment" approach, to a "coordinated development" one under the three leaders, respectively, since 1949.

## **Changes of Regional Development Strategy**

### The "Balancing Policy of Regional Development," 1949-1978

It was pointed out by Mao in 1956 that China's industries (including light and heavy) had been concentrated in coastal areas, which means that 70 percent of industry was located in coastal, and only another 30 percent was in inner areas. Since then heavy industry has been taken as the main industry to be developed, and most of it has been invested in the Northeast due to the relationship of China-Soviet Union in 1950's.

Since the 1960's, under the guidelines of the "3 line construction", the government had changed its weight of investment into inner areas, for military reasons.

As the result, the share of the inner areas' GDP of industry has changed from 31 percent in 1952, to 38.5 percent in 1980. However, the national economy was damaged by the bad efficiency and a kind of "cellular economy" which existed in China <sup>(1)</sup>.

#### "Favorable Treatment" to Coastal Areas, 1979-1994

Efficiency of the economy and speed of growth have been taken as the most important factors in regional development strategy in China since 1980. Regional development plans have been made according to groups of coastal, inner, minority, and underdeveloped areas in which coastal areas become the main recipients of both domestic and foreign investment. Table 1 indicates the situation of regional distribution of infrastructure investment in each period. The amount of foreign direct investment in each region is shown in Table 2.

Market-oriented regional development in this period has followed three characteristics. First, the authority of investment in fixed assets was conceded from the central to local governments <sup>(2)</sup>. Secondly, the introduction of the local fiscal responsibility system, which included "income distinguish," "total income distribution" and "certain amount supply" methods <sup>(3)</sup>. Third, favorable treatments, such as favorable taxation on foreign direct investment in coastal areas, etc., were given to the regions that have comparative economic advantages. As the result, the disparity between regions grew <sup>(4)</sup>. Figure 1 indicates the comparative differentials of per capita GNP among three regions (East, Middle, and West); figure 2 indicates the comparative differentials of income between rural and urban residents among three regions. Fluctuation in income among three regions is shown in Table 3.

### Coordinated Development in 1990's

In the 1990's, the strategy of developing and opening up the Yangtze River area was set at the fourteenth CPC national congress. Furthermore, the fifth plenary session of the fourteenth CPC central committee put forward a strategic vision of "building an economic belt with the Asia-Europe continental bridge and railway trunk-lines such as the Beijing-Kowloon railway as the links." Thus, a new pattern of development and opening up has been formed in China made up by the coastal economic belt, Yangtze River economic belt, economic belt along the continental bridge and economic belt along the Beijing-Kowloon railway (Figure 3) <sup>(5)</sup>.

### Theoretical Debate on Regional Economic Development in China

Since the inception of reform in 1948 and especially since the opening up of China in 1978, theoretical debate on regional economic development has been quite heated in China. Here, we only make a brief introduction on the theories that are considered as the bases of the regional strategy in each period of China. Favorable treatment to coastal areas in the 1980's is considered based on 'echelon development theory' <sup>(6)</sup>. However, 'growth pole theory' supports the strategy of inner area development in 1990's <sup>(7)</sup>. Furthermore, 'big push theory' is considered as the theoretical background of China's regional economic development strategy in the 21<sup>st</sup> century <sup>(8)</sup>.

## **China's Regional Development Strategy in the 21<sup>st</sup> Century**

### Large Scale Development of China's Western Region

China's growth pattern has led to rising income disparities between the resource poor interior and western regions on the one hand, and the more affluent and rapidly growing coastal areas on the other (China 2020 – Sharing Rising Incomes, World Bank,

1997). An unfavorable agro-ecological environment, degraded lands, low precipitation with recurrent droughts, fragmented and uneconomic land holdings combined with slow human resource and institutional development have constrained the prospects for increased agricultural productivity and income in the upland areas. Secretary General Jiang Zemin put forward the “strategy for the large scale development of China’s western region” in June 1999<sup>(1)</sup>.

The aims of the Western strategy have two parts. First, the realization of sustainable development through enriching people and strengthening the region guaranteed by scientific and technological progress and educational development. Secondly, to gradually build the western part of China into an important strategic area enjoying political stability, economic prosperity, social progress, beautiful scenery and well-being by speeding up infrastructure construction, improving ecological environment, optimizing industrial structure, and so on. However, this is difficult, as Western China is comprised of nine provinces and autonomous regions and one municipality. These are Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, Sichuan, Chongqing, Yunnan, Guizhou, Xizang, Neimenggu and Tibet, with a total area of 5.4 million square kilometers and a population of 285 million, accounting for 56 percent and 23 percent of the nation, respectively.

#### Guidelines of Development for Western China

The guidelines of development for West China produced by the central government are as follows.

- (1) Upgrade infrastructure through construction, such as irrigation, roads, railways, airports, power transmission, gas pipelines, and information and communication

facilities.

- (2) Eco-friendly development, such as “returning farmland to forest and grass”.
- (3) Optimization of industrial structure, such as restructuring of ‘state-owned’ enterprises, upgrading of agricultural industries, and the development of third industries like tourism, from resource-dependent to technology and market dependent.
- (4) Human resources development, such as the enlargement of national research institutions, and favorable policies for education.
- (5) Creation of better institutions and institutional environment, such as the adoption of a standardized fiscal transfer system.

#### Practical Plan for Developing West China

(1) The Chinese government is promoting fiscal transfer as a major financial support to accelerate development of the West. Ten major projects slated for China’s western region are shown in Table 4.

(2) China has promised to grant favorable policies to projects in the west whose foreign investment takes up more than 25 percent of the total. Foreign investors, who invest in industries encouraged and supported by the country, will get another three years of tax cuts, following five years of tax exemptions or reductions.

(3) The Ministry of Agriculture, trying to relieve financial burdens on township enterprises, pledged to eliminate unreasonable charges that hold back the rural economy. The State Development Planning Commission and the Ministry of Finance will list unwarranted fees charged to township firms, and the Ministry of Agriculture will ensure that these items are canceled this year (2000). This problem is serious as fines, arbitrary quotas and other charges to companies that operate in China’s rural areas have

seen their profits cut by an average 20 percent.

### **Concluding Remarks**

Implementation of the strategy for the large-scale development of the western region is, without doubt, of important significance to expanding domestic demand, promoting coordinated development of China's economy and attaining the strategic goal of development in the 20<sup>th</sup> and 21<sup>st</sup> centuries. However, it should also be noted that the success of large-scale development of the western region would be achieved only after efforts of several generations. Western development is subject to constraints on environmental resources, labor skills and many other factors. A change in these restrictive factors cannot be brought about within a short period of time.

Notes (1): See Donnithorne 1972, The 1960s, especially, when entering in the Great Proletarian Cultural Revolution period which begins from 1966, the tendency of the industrial area decentralization strengthened more. To establish a comparatively independent industrial system was made the policy goal of the high precedence. Donnithorne took the idea type of the industrial location this time by "the cellular economy". The establishment of "the 5 small industry" to have had the purpose to support agriculture as the chemical fertilizer, the cement, the agricultural machinery manufacture and the repair, and so on, of in the rural areas which should be originally incompatible with the industrialization was aimed at. Also, in the business level, "the one-set principle" was pursued. "Self Realize" was applied to the agriculture in addition to the industry, too.

(2): Limited amount of local project investment was changed from 10 million Yuan to 30 million Yuan in 1985, and the limited amount of investment in energy,

transportation, raw material industries was over 50 million Yuan since 1987.

(3): See Kato, Hiroyuki, 1997, p247.

(4): There are a lot of variations in the methodology of measurement in regional disparity. See Tsui, 1991; Sato, 1995; Nolan and Sender, 1992; Yang, 1992; Dong, 1992; Tsui, 1994

(5): See Gao Zhengang, 2000, p388.

(6): “Echelon” theory is the one which aims at the step-by-step development from the advanced area into the underdeveloped areas, tying the difference of the technical level, “the advanced technology”, “the middle technology, “the tradition technology”, to the economic development level every area.

(7): It thinks much of “Growth pole” role about the regional development and the theory finds a mechanism with the radius of the market of which the technology spreads gradually from the center out and it extends for there. The regional development policy, which is based on this theory, has a purpose of choosing the area, which can become “Growth axis” from the inside in the area, which was behind relatively, and making there a base and carrying forward the spread of the economic development. (See Richardson and Townroe, 1986)

(8): The investment activity of the individual firm gives the other business the externality to be positive through the rise of the demand and the infrastructure service and so on. However, there is possibility to have fallen into “the bad equilibrium” out of more than ‘one equilibrium’ for a positive cash flow not to be got even if only one business engages in the investment. The crucial point is that the business, which produces externality, cannot win all profits by the externality. No matter why, in the condition that doesn’t have a private incentive, in each economic agent, if investing all

together, the economy reaches the good equilibrium. Therefore, if the government works out an appropriate policy for the investment adjustment, it improves welfare.