

## CHANGE OF REGIONAL ECONOMIC DEVELOPMENT POLICY IN CHINA

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**ABSTRACT:** After 40 years of painstaking work, much improvement has been made in regional difference. The road of that development, however, is by no means a smooth one, full of setbacks and failure. The past forty years may be roughly divided into four stages: 1. a stage of rehabilitation and large scale transition towards the interior (1949-1959), 2. the dispersion stage with an emphasis on the construction of the interior (1960-1977), 3. a stage of moving back to the coastland and relative concentration of constructions of large scale industries (1978-1980), and 4. a stage of taking the coastland as the focal point for regional development (since 1981). Since the late 1970s, China began to carry out what is known as the Open-door policy. Great changes have taken place in regional development policy.

**KEY WORDS:** regional policy, economic development

### I. THE PROCESSES OF REGIONAL POLICY IN CHINA

Because of the dissimilarities in natural environment, historical development, population distribution and economic basis, there exist distinct regional differences in mainland China. To eliminate these differences gradually and get to nationwide common prosperity is the long-term target and socioeconomic development task for the Chinese government.

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The road of that development, however, is by no means a smooth one, full of setbacks and failure. The past forty years may be roughly divided into four stages.

#### 1. A stage of rehabilitation and large scale transition towards the interior (1949-1959)

With a weak economic foundation left behind from preliberation China, the basic pat-

tern of regional division in this stage consisted of the coastland and interior. So the emphasis in regional development policy was shifted from the coastland to the interior. The

**Table 1 The socioeconomic indexes of the three zones (1988)**

Zone	Land Area (%)	Population (%)	Industry output value (%)	Grain output (%)	Railway density (km / 10,000 km <sup>2</sup> )	Urbanization level (%)	Net income per farmer (yuan)
Eastern	13.5	41	62	39	117	21	766
Central	30	36	26	41	87	19	501
Western	56.5	23	12	20	24	14	428

Note: The Eastern Zone includes the twelve coastal provinces (municipalities, autonomous regions) of Beijing, Tianjin, Shanghai, Liaoning, Hebei, Shandong, Jiangsu, Zhejiang, Fujian, Guangdong, Guangxi and Hainan. The Central Zone includes the nine provinces (autonomous regions) of Inner Mongolia, Shanxi, Henan, Anhui, Jiangxi, Hubei, Hunan, Jilin and Heilongjiang. The Western Zone includes the nine provinces of Shanxi, Gansu, Ningxia, Qinghai, Xinjiang, Sichuan, Yunnan, Guizhou and Xizang.

Source: The Conditions of China.

concentrated arrangement in cities of large-scale industries dominated the distribution of industries. In the first three years after New China was founded, the reforming of old industrial bases along the coastal area was stressed; at the same time, a few big cities started to move parts of their industries to the interior. Shanghai, for example, to the northwest and southwest; similarly, Liaoning shifter its part industries to Heilongjiang. In 1953, China initiated the first vast scale construction program centered by a lot of large scale industrial projects. With the interior as its focus, among the 694 projects, 65% of them were located in 45 cities and 61 workers towns west of the Beijing-Guangzhou Railway Line. In so far as capital construction investment was concerned, the interior overlook the coastal area by 6%, thus laying a foundation for development in the interior.

During this period, old coastland industrial bases such as Shanghai and North China failed to demonstrate their potentialities because of insufficient investment and lack of large scale project. Thus, in 1956 Mao Zedong, in his famous report "On Ten Relationships", stressed the need to give consideration to development in both the coastal and the interior."

But, the Great Leap Forward Movement initiated in 1958 interrupted original arrangement and became ushered in the nearly 20-year-long dispersion and "systemization" in regional development. It demanded that the newly divided seven cooperative zones-Northeast China, North China, East China, Central China, South China, Southwest China, Northwest China-form relatively complete industrial systems and economic zones

of their own. At the same time it was emphasized that each province within any of the seven zones might, if conditions permitting, set up their own independent industrial systems. Thus started the so-called "widespread blossoming" in the distribution of industries, and as a result, of course, strengthened constructions in the interior.

## **2. The dispersion stage with an emphasis on the construction of the interior (1960-1977)**

The years between the early 1960s and the mid-1970s was a period when China first experienced three years of hardships as a result of the Great Leap Forward Movement and natural disasters, then stepped into three years of adjustment and soon after suffered a ten-year-long turmoil known as the Cultural Revolution.

Regarding regional division, and from defense point of view, the whole country was divided into three regions known as the First Line, the Second Line and the Third Line. This division corresponds to the military divisions of the time. The entire country was again divided into ten economic cooperative zones (In addition to the already existing six economic cooperative zones, four new ones were created, they were Shandong, Fujian, Jiangxi all in East China region, and Xingjiang Autonomous Region in the northwest.). Within each zone, heavy industries such as metallurgical and defense-related ones were established. So far as the regional distribution of productive forces and investment is concerned, the Third Line was the focal point. During the Third Five-year Plan period (1960-1970), investment in the Third Line area reached 52.7%, 11.7% larger than that of the coastland. It was stressed that the distribution of industries must be near the mountains, dispersed and hidden. They must be far away from cities and towns, situated in isolated industrial areas. It was even demanded that factories and communes be combined and cities learn from the countryside so as to eliminate rural-urban differentiation.

## **3. A stage of moving back to the coastland and relative concentration of constructions of large scale industries (1978-1980)**

The concept of Three Lines was no longer considered important in regional division; again the whole country was simply divided into two parts of the coastland and the interior. Great changes began to take place in the distribution of industries as a result of the normalization of Sino-American, Sino-Japanese relationship and improved international situations. Industrial construction marked by a large number of imported projects was under way, and distributed in major industrial cities along the coastal area and Yangtze River. Oil refineries at Jinmen, Yueyang and Anqing, and fertilize plants at Chishui, Zhijiang and Yueyang are just two examples. Among the imported projects in 1978, 51% were located along the coastland. The rates of coastland investment in total national capital construction reached again the level of 41.5-43%. Industrial development speed began to surpass that of the interior (by 0.5%). It a mark that the regional policy has begun to transit in space.

#### **4. A stage of taking the coastland as the focal point for regional development (since 1981)**

The 1980s is a period when China's regional development policy was the most active. In the first place, for the first time in history a special chapter—“Regional Economic Development Program”—was attached to the nation's Five-year Plan, making regional diversities a geographical basis for governments at different levels to keep in mind when coming to make social, economic development plans. Secondly, instead of being divided into the coastland and the interior, the whole country is divided into the coastland and the interior, minority areas and underdeveloped regions (the Sixth Five-year Plan); or into the three economic region networks with different size and characteristics, thus fully making use of themselves in regional economic development as a core and organizers. Regional economic development policy, the nation's open door policy and coastland development strategy combined will be full of vigor and life. The rates of investment in capital construction of the eastern coastland amounted to 47.6% during the Sixth Five-year Plan period, and between 1986–1988, reached 49.2%. The rates of total industrial output value of the coastland already surpassed 60% by 1985.

## **II. THE COMMENTS ON REGIONAL POLICY IN CHINA**

After we analyzed the change in China's regional development policy in the last 40 years, the following may be clearly seen:

**1. China's regional development policy has always shifted between the urban and the rural, between the coastland and interior, and for a long time the emphasis has been in the rural and interior.**

Because of the historical, geographical and other factors, there always exists a considerable political, economic and cultural differences between the coastland in the east and the vast interior in the middle and the west. Before 1949, 70% of the nation's industry was centred on the coastland in the east, with 3/4 distributed in Shanghai, Jiangsu, Liaoning, Hebei and Tianjin, meanwhile, the difference between the urban and rural was also alarming. Over 80% of the nation's population live in the vast rural areas and, under the closed, self-sufficient economic system, economic development and the people's income both fall far-behind those of the cities, thus creating an impressive contrast between the backward countryside and relatively modernized cities, thus creating an impressive contrast between the backward countryside and relatively modernized cities. The cities are abnormally clustered in the eastern coastland. The overlapping of the urban-rural contradictory and regional contradictory makes even larger the difference between the coastland and the interior. As a result, the nation's regional development policy has always been swinging between

urban and rural, the coastland and the interior, with an emphasis on the rural and the interior for a long-term. According to statistics of nation's capital construction investment between 1949 and 1980, investment for the central and western interior was exceeded 50% for twenty-three years, the highest reaching 64.7% during 1966 to 1970.

Obviously the policy shifting between urban and rural was even more distinct. The cities, after the priority development before 1957 and 1958-1960 excessive urbanization, began to reduce their population dating from the so-called Hard Times Period. By June 1963, over 26 million people returned rural areas. Since then, the rural area focus on agricultural production has always been the target of the state's concern; at the same time, urban development was slowed down and even declined. Level of urbanization had shifted around the figure of 12% for over 10 years. Relatively fast development in cities did not occur until 1978. Between 1978 and 1988, 242 new cities had emerged, which is 1.8 times as many as the total increase in the number of cities in the first 30 years since the founding of New China; and 9303 towns had been added, which is 5.3 times as many as the total number of 1978.

**Table 2 The proportion of capital construction investment of each Five-year Plan period in three zones (%)**

Zone	the First	the Second	1963 -1965	the Third	the Fourth	the Fifth	the Sixth	1986 -1988
Eastern	36.9	38.5	34.9	26.9	35.5	42.1	47.6	49.2
Central	28.7	33.9	32.7	29.9	29.9	30.2	24.0	26.2
Western	18.1	22.0	25.6	34.8	24.5	19.9	22.6	15.6
Others	16.3	5.6	6.8	8.4	10.1	7.8	5.8	9.1
The sum of the Western & Central	46.8	55.9	58.3	64.7	54.4	50.1	46.6	41.8

Source: Paper by Wang Yiming and others, "The transition in the 1980s in China's regional policy and its social economic effects", The Asia-Pacific Region Conference, international Geographic Union, 1990, Beijing.

Note: Because of the dissimilarities in sources, the part of data this paper quote differ from table 2.

## **2. Between balance and stress, in other words, between equality and efficiency, China's regional development policy pays more attention to balanced development.**

There exist two opposed policies in regional development, namely balanced development and emphasized inclination, which essentially have to do with equality-efficiency re-

relationship or the relationship between economic effect and social effect. For developing countries, due to their weak economic basis and the shortage of fund, they generally tend to emphasized inclination, hoping to achieve, with the limited investment, more products and faster economic development. For China, because of the following reasons: (1) the socialist system with the purpose of eliminating rural-urban difference and regional difference; (2) for a long time, China has regarded agriculture as its sole base for existence; the peasants take up the overwhelming majority of the population, unstable agricultural foundation and the poor and backward conditions of the vast rural areas are a heavy bundle to the state; (3) over one hundred years of semi-colony by Western Powers make the Chinese nation strongly aware of its independence and self-reliance, and consequently the Chinese government has paid enormous attention to national defence. For political, economic and national defence reasons, China had basically adopted, before the 1980s, balanced regional development policy, in an effort to safeguard its independence, achieve national solidarity, and narrow rural-urban differences to become commonly rich. Therefore productive forces were distributed from the coastland to the interior and finally to the Third Line. It was emphasized that relatively independent industrial systems be set up within each cooperative zone and province, the distribution of industries was scattered, construction of the Third Line region was characteristic of being in the mountainous districts, scattered and in caves. The purpose of doing so is to not only open up the interior and develop rural economy, but also adjust to international environment and meet the need of national defence. Policies after 1980, on the other hand, were exactly products of changed international situation and China's openness to the outside world.

Regional development policies as illustrated above produced rather poor effects. The results of balanced development in the previous 30 years since liberation are: first, though a total of over 100 billion yuan was invested in the Third Line construction, equipment utilization rate was gloomily low and economic effect rather poor, and consequently quite many working units had moved out of the area; secondly, individual industrial systems had led to repetitive construction regardless of different regional conditions and had created an enclosed economic working system; thirdly, too much attention to rural development and negligence of urban development had slowed down the process of China's urbanization. Till 1988, urban population had not reached 20% of the total (according to nonagricultural population). Central cities in the interior had not been powerful enough. In 9 provinces of Western Zone there were only 8 cities with 500,000 population for each, and among them each city's service area amounted to 670,000 square kilometers, which is 4.3 times as much in comparison with similar cities in other parts of the country; lastly, scattered distribution of factories, enterprises and towns made it difficult for organized modernized cooperative production system to work and collective efforts to play a desired role in effective economic activities. In addition, it had brought about alarming wastes of personnel, land and facilities, as well as low efficiency and low productivity level.

### III. THE NEW TRENDS OF REGIONAL POLICY IN CHINA

Since the late 1970s, under the circumstance of changed world situation and economic internationalization, China began to carry out what is known as the Open-door policy. Great changes have taken place in regional development policy, notably from balanced develop to favored development, thus stepping into a new era in which coastal area have the advantage to be development first and the cities are to lead the countryside. The changes can be seen in the following aspects: (1) The distribution of productive forces and investment targets have shifted from the Third Line to the coastal area, and the development strategy is to foster development first in the coastal zone and then move to the middle zone and finally to the west zone. (2) China had opened its door to the outside world by setting up 4 Special Economic Zones, opening 14 coastal harbour cities to foreign countries and establishing 4 open regions. (3) Since 1983, a new jurisdictional system has been introduced under which a city is to lead several surrounding counties. Up till 1989, there have already been 166 cities with 778 units of county level under their jurisdiction. (4) Different levels of economic cooperative regions have been organized and they have strengthened links between different zones. Up to 1986, 105 regional cooperative organizations and economic network organizations have emerged between provinces, within every province and between cities.

Tremendous achievements have been made in the initial ten years of reform. The coastal area has made use of their advantages, and the interior economy has got the development. On the other hand, however, a lot of side-effects have appeared. Too low prices of raw materials and relatively high prices of processing products have caused a heavy economic loss to the middle-western regions rich in resources. The Open-door policy has made it possible for eastern regions to enjoy favorable treatments in absorbing foreign investment, introducing advanced technology and trading with other countries, which are hardly available in the middle-western region. In addition, as a result of increased local power and new financial system under which each province, given certain amount of money, is to decide how to balance its budget, the managing and controlling power of the central government has been weakened and economic development tends to favor local interests. Consequently, the proportional rate of the mining industry and raw material industry in the nation's economy have dropped, according to a 1982-1988 statistical data, from 26.6% to 23.1%, while the processing industry has risen, according to the same data, from 38.1% to 43.9%. Contradiction within the supply-and-demand framework becomes inevitable. Regional industrial structures tend to be homogeneous, meanwhile, the difference among the Eastern, Central and Western, three parts of the country has been widened. If we take average national income per person into account, in 1979 the ratio among the three zones is 1:0.6:0.56, and in 1987 the ratio has changed into 1:0.56:0.44 (See Table 3).

**Table 3 The three zones: contrast of national income (per person)**

	Unit	Eastern	Central	Western
1979	yuan	451	271	254
Proportion of three zones		1	0.60	0.56
1987	yuan	1449.92	791.67	633.44
Proportion of three zones		1	0.56	0.44

Source: paper by Wang Yiming

According to the conditions above, since 1990s China has specified new regional development policies, namely:

(1) In its guiding principle, the central government has adopted a moderate inclination, coordinated growth, in other words, to combine regional inclination with industrial inclination. On the one hand, coastal zones will still be the key development area and then move along the Yangtze River and the Eurasian land bridge towards the middle zone and to the west zone. On the other hand, the central government will reinforce basic industries such as energy, raw material industries; it will promote economic development and the exploitation of rich natural resources in the middle-western part of the country. In the course of opening to the outside, we must carry out the "Three Along" strategy—along the coastland, along the Yangtze River and along border areas (such as the three provinces in the northeast, northeast Inner Mongolia, western Xingjiang and southern Yunnan Guangxi). In the mean time assistance to the poor and minority regions must be increased. Thus, the contradiction among the regions will be relaxed gradually.

(2) Specialization and comprehensive development must be combined in formulating industrial regional structure. In the eastern part of the country, industrial characteristic of technology—and-knowledge orientation must predominate. In the middle part, we must speed up the development of energy and raw material industries, while in comparatively developed cities and regions of this part, attention should be given to actively creating new industries and developing industries in which knowledge and advanced technology take a predominant role. In the western part, we will try to develop agriculture, forestry, animal husbandry, and transportation; we will step by step open up energy and mineral resources with emphasis, and also we will develop processing industry according to local specific con-



ditions.

(3) Regional relationship between the urban and rural, while the size and scale of big cities will continue to be kept under control, the constructive process of medium sized and small cities must be fastened so as to create different regional centers. At the same time, we will continue to make adjustments in rural economy dominated by commune—and—town run enterprises, thus to build up a new countryside.

The ten years to come will be a very important period of regional economic development for China. We can expect that there will be a relatively faster speed for economic and urban development in the middle—west. Yet, in general, because of the powerful economic might and specific advantage enjoyed by the east, there is little chance for the difference between the east and middle—west to be narrowed and on the contrary, it is likely to be widened. Thus, the existing regional development policy only serves to slow down the process of the widening difference and lay a foundation for future balance in regional development. The next century will see a fantastic development in the middle—west, which will become a huge reserved base for China's economy.

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