

RESEARCH ON THE COASTAL DEVELOPMENT STRATEGY IN CHINA: TAKE SHANDONG PROVINCE AS AN EXAMPLE

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ABSTRACT: Nowadays in China, the coastal development strategy (CDS) aims to make the region (with population 160 million) ahead of developing export-oriented economy and to promote the inland economic prosperity at the same time.

The paper analyzes the CDS based on the background of coastal area and the situation at home and abroad, and mainly discusses the relevant tactics in Shandong Province, China.

KEY WORDS: coastal development, development strategy, Shandong Province, export-oriented economy

I. THE TRADITIONAL AUTARKICAL MODEL DISINTEGRATED BY THE CONSIDERABLE PROGRESS OF DOMESTIC ECONOMY

Thanks to China's economic reform and open policy since 1979, China's economy has grown obviously, and industrial science and technology level has improved evidently, which makes the traditional autarkical model unadaptable any longer. It's impossible for China's economy to enter into higher gradation without developing export-oriented economy. The reasons are as follows:

1. Surplus Labour in Rural Areas Want to Work

Since 1979, the policy "the contract responsibility system linked to production" has been spreaded in rural areas. It has signally improved the labour productivity. As a result, there are immense surplus labour idle in rural areas. Opposite to the higher labour cost in the world market, it's very easy for the coastal region to get cheap labour in China. The la-

bour will be suitable for industrial production, the service trades and so on. Undoubtedly, it's the best selection for surplus labour to seek way out on the international market.

2. The Processing Industry in Coastal Area Wants Materials from Abroad

At present, as the processing enterprises have sprung up like mushrooms, they have partly or mostly consumed raw and processed materials locally. In the inland, economic model is changing from natural resources type to processing resources type. The change has made coastal industries seriously lack of raw materials and energy. In order to develop themselves, many coastal industries have to turn their sights to the world market. On the other hand, in the coastal region, the processing industries are replacing traditional raw materials by new raw materials, and their supply depends on the world market to a high degree.

3. Ripe Products of Light (Textile) Industry Should Occupy the World Market

Stimulated by the demands at home and abroad, many traditional light (textile) products have being developed rapidly by introducing advanced technology and equipment. With the products of high-quality and diverse varieties, they should be put into the vaster international market. In addition, focusing on the competition of the world market, light (textile) industry can also improve its products in quality, style, grade, package and so forth.

4. China Needs Foreign Funds and Advanced Techniques to Promote Its Industrial Structure

While developing the science and technology, we must continuously improve the tech-grade of the whole industrial structure. We should produce high-quality and tech-intensive products such as automobile, aviation and aerospace equipment, office automatic device, senior complete plants etc. Then, China will have ability to raise average national income per capita, to make itself stronger and prosperous. In order to import advanced techniques and modern management experience from abroad, we need huge foreign exchange. So it is necessary to develop export-oriented industries as quickly as possibly.

II. THE THIRD INDUSTRIAL-TRANSFORMATION IN THE ASIA-PACIFIC REGION (APR) GIVES CHINA AN OPPORTUNITY TO CARRY OUT EXPORT-ORIENTED ECONOMY (EOE)

During World War II, Japanese and Germanic economy collapsed as the defeated nations. The economy in Britain, France and other European countries weakened with the war. The USSR's constitution was also undermined by the war. At that time, only U.S.A.

developed its economy swiftly.

After World War II, for the sake of the expansion of socialism in Europe Marshal Plan was carried out in Asia, U.S.A. took Japan as a base to provide military supplies in APR. After the Korea War broke out, the economy in Hong Kong and Taiwan was promoted indirectly because of providing supplies and stagger holidays for U.S.A. troop. During that time, U.S.A. carried out the first post-war industrial transformation in the Asia-Pacific region (APR).

In the early 1960s, when the Viet Nam War aggravated, U.S.A. took Hong Kong, Taiwan, Japan and South Korea as bases, gave these countries a lot of military and economic aids. The war promoted indirectly the economies in Japan, Hong Kong, Taiwan and South Korea once again.

At the middle of the 1960s, the developing level of economy and technology of U.S.A. had been raised again in product quality. The second industrial transformation of U.S.A. mainly waved to Singapore, Hong Kong, South Korea and Taiwan (so called four little dragons). Four little dragons had further developed labour-intensive export industries, and had started to change into fund-immense industries. In the past ten years, the economies of four little dragons have great success. Besides correct tactics taken, grasping the opportunities is key. In recent two years, as U.S.A. currency has devaluated, four little dragons also have had a medium appreciation for their money. They have had weakened ability of competition to accept fund from U.S.A. and Japan. Meanwhile, because of higher labour cost in their countries they must transfer many labour-intensive enterprises to cheaper labour-cost region. Because of the superiority of cheaper labour cost, it is a good opportunity for China to develop EOE and enter the international market.

But the chance is not only for China. As in APR, there are still many powerful opponents in accepting foreign investments. Such as Thailand, Malaysia, Indonesia, Philippines, therefore, we should not miss the chance to develop CDS.

III. IT'S NECESSARY TO DRAW UP TACTICS IN ACCORDANCE WITH TIME AND PLACE WHEN CARRYING OUT CDS

For every coastal region in China, there is difference in geographical position, natural resources, economic structure, allowable degree of policies, ideas of mass and cadres, etc. When carrying out the CDS, different region should not adopt same tactics, but according to their only local conditions and time, draw up tactics conscientiously to develop EOE.

Shandong Province has the most population in the coastal region in China. Shandong Peninsula is one of the important bridge connecting with the international market. Qingdao as a coastal city is the most important industrial and harbour city in Shandong Province.

Compared with the Zhujiang River delta, the Changjiang River delta, Minjiang River delta and Liaodong Peninsula in developing EOE, Shandong Peninsula has its special char-

acteristics. The Zhujiang River delta has quick access to information due to its flourishing foreign trade and its neighbourhood to Hong Kong and Macao. So its labour cost and land fee are high. The Zhujiang River delta as a Special Economic Zone has preferential policies and has clear superiorities in trust processing (processing foreign-supplied materials, processing according to foreign-supplied samples, assembling foreign parts), compensatory trade, transit trade with Hong Kong and Macao. Shandong Peninsula has something similar to that of Liaodong Peninsula: lack of lenient policy; lack of sense of commodity economy, but rich in natural resources and high tech-gradation of industrial structure. Because Liaoning Province is a heavy industrial base of China, Liaodong Peninsula has advantage to export heavy industrial products and chemical products through cooperating with foreigners.

For this reason, the open region in Shandong Peninsula and Shandong Province should adopt the following tactics to develop EOE.

1. Using the Advantage of Relative Low Labour Fee of Enterprises to Develop Trust Processing and Compensatory Trade in Shandong Peninsula

For most items of trust processing and compensatory trade, especially for some smaller items, the distance between both sides is an important factor. Because Hong Kong is a close neighbour to the Zhujiang River delta, it's much convenient for personnel contact, message delivery, goods transport. About 70% of enterprises in Hong Kong set up front shops in Hong Kong and back factories in the Zhujiang River delta. But in Shandong Peninsula, we have not such an advantage but advantage of low-cost labour. We can use this advantage to attract investors from Hong Kong, Taiwan, South Korea and Japan to set up processing districts, enterprises especially for some products and items which have larger scale and less timeliness demand.

This doesn't mean that to raise employee's income is not allowed. We should consider the question from all directions. If labour fee increases too fast, Shandong Peninsula will lose its superiority.

2. Achieving Foreign Exchange Should Be Focus of Carrying Out CDS

Generally, the forms of EOE are trust processing and compensatory trade. In order to achieve foreign exchange, traditional enterprises may be changed into joint enterprises, wholly foreign-funded project or co-operative projects. We can also organize labour service export, build export-processing districts, develop international tourism etc. But in the present stage, the latent potentialities for export and attracting foreign currency is to use the traditional enterprises.

For example, among 1750 million yuan of purchasing value of export-commodities, the commodity (raw material from abroad, sell to abroad) value is 250 million yuan only

constituting 14.3%. Meanwhile the value of such enterprises as foreign-funded, joint venture, co-operative, which export and create foreign exchange, is only US \$ 10 million. This pattern can not change too much in the mid-term. The reasons are as follows:

1) Due to the effect of unfavorable factors, like geographical position etc. trust processing and compensatory trade can not become main tendency in Shandong Peninsula like those in the Zhujiang River delta.

2) Being restricted by the course of structural reform of politics and economy, the investment environment, especially soft environment can not be improved suddenly in a short time.

These have weakened the abilities of our coastal region, consisting Shandong Peninsula, in competition with four little dragons, Thailand and Malaysia in absorbing foreign capitals to a high degree.

3) Qingdao has effective production capacity of the output value of more than 20 billion yuan output value. About 400 enterprises can produce more than 500 sorts of products and sell to 140 countries and regions. In 1987, Qingdao exported industrial products and attracted foreign exchange about US \$ 440 million. If the policies and chance make export better than domestic trade, numerous enterprises will still form huge ability to export and earn foreign exchange.

3. According to the Demands of the World Market and Shandong's Possibility Several Sorts of Major Export Products Every One or Two Years Are Defined

In the beginning stage when industrial organization is quite dispersed, the governments must give macroscopic guides in order to promote traditional enterprises to export and attract foreign exchange. Therefore, an effective measure to guide export is to define several major export products per one or two years. Qingdao, for example, among 500 kinds of export products, there are few products which have really had competitive ability and have become larger batch. Some products sold well on the international market have not created effects on the market due to inability to enlarge productive scale to form fists. Because we have lacked the mechanism to impel all productive elements to flow to some export products which have good outlook, we are not able to occupy the world market rapidly. If we insist on developing major export-products, in ten or twenty years, we may set up a huge export-oriented industries, which accords with the demands of the international market. The best brand product like Qingdao Beer is not only one, but several or scores.

Certainly, we must make long-term investigation of the foreign markets and major export nations, before defining the major export products. It demands us adopting a series of measures, such as setting up many institutions functioning abroad, engaging senior talents on economy and trade, establishing research institutions.

4. It Is a Key Link of Developing EOE for Us to Import Foreign Advanced Techniques, Equipment and Products

Qingdao for example from 1984 to 1989, opening to the outside world further, has introduced 669 items of advanced techniques and equipment. More than 360 old enterprises have been improved, which created the output value of 42 billion yuan, the profit and tax of 860 million yuan, and foreign exchange of US \$ 200 million every year. A batch of products which have higher level of technology have appeared, such as electrical equipment for families (refrigerator, colour TV set, air conditioner etc.) and other products of light, mechanical and electrical industry.

The purpose of import is to make technological innovations to old enterprises so that their technique and equipment will reach international standard of the 1970s-1980s. Importing some products like domestic electrical devices is meeting the need of domestic markets. At first we should assemble parts instead of importing whole apparatus then raise the ability to produce elements and parts by ourselves step by step. We can say that, at that time most enterprises didn't take import as the next step to export and earn foreign exchange.

In the further import of technique and equipment when carrying out CDS, Shandong Province must put hard-earned foreign exchange into the items which can be exported and attract foreign exchange. If so, the whole industrial structure of Shandong Province can be promoted in the cycle "export-import-export with high scale and high level", and its products can get impregnable position on the world markets.

In order to do so, we should adopt a series of methods: strengthening the annexation among enterprises, allowing conglomerate diversification, etc.

In terms of the whole structure of export products, Shandong Province, is still in the stage of exporting farm and sideline products, primary processed products. Some precision labour-intensive products and part of tech-intensive and capital-intensive products such as domestic electrical devices, synthetic material etc. are still being in the stage "import-replace". Only few products belong to export-orientation. Because of the huge demands and high interests on the domestic markets, some products which may face the world market have to sell at home. It has caused unbalance of foreign exchange for some domestic electrical devices. In order to solve this problem, we must quicken the development of the domestic industry. But long time of "import-replace" would lead import products to lose their international competitive ability and be unhelpful for export-orientation of enterprises. Finally since it's unfavourable to carry out the CDS in Shandong Province we should choose some export-oriented model products base on "import-replace" model. The purpose of import is just to export, namely, look for the cheapest and best elements and parts both on the domestic and international markets, to produce and sell according to the demands of the world market, and to lead the enterprises to change from "import-replace"

phase to "export-orientation" phase gradually.

In recent years, the experiences of Qingdao City have shown that: only when importing high-tech products and paying attention to absorbing and digesting, we are able to enter the world market in a short time.

5. Shandong or Open Region in Shandong Peninsula Should Take Japan and South Korea as Important Partner in Further Economic and Technical Co-Operation

After World War II, Japan is the earliest country to accept American industrial proliferation in Asia and has achieved remarkable economic success, but Japan is different from U.S.A. When its industrial structure have been improved greatly, Japan is still unwilling to transfer lower gradation industry to other countries, which has caused trade surplus and wide margin devaluation for Japanese Yen to U.S. Dollar. At that time Japan had to adopt lower-grade industrial proliferation policy. In 1988, Japanese parties concerned put forward an intention to set up export processing district in Qingdao. In recent years, Japanese investment has been little in China due to the existing doubts. There is a version that in order to overwhelm China in technology over a long period, Japan can only transfer the techniques which have been out of date for 10 years. Japan is a high-income, and economy and technology developed nation with Japanese Yen to U.S. Dollar has caused a huge potentialities of investment to China. The domestic market in Japan, especially the labour-intensive market is rapidly opened to the outside world. It's worth noticing. These are our pursuit for developing EOE.

South Korea is "the second Japan" in Asia. Its average GNP per capita went up to US \$ 2300 in 1986 from US \$ 28 in 1960. Its output value went up to 34.9 billion in 1986 from US \$ 50 million in 1962, separately increased by 28 times and 698 times. Now South Korea has been enormously strengthened in synthetic fiber, iron and steel, automobile, shipbuilding, machinery, electron, petrochemistry departments etc. Competitive ability of many products has surpassed those of U.S.A. and Japan on the international market.

In order to meet the needs of continuous rise in labour cost and its products market and capitals, South Korea has had a strong desire to co-operate with China in economy and technology. In addition, in South Korea there are about 100,000 overseas Chinese who came from Shandong. Many of them are keen-witted people in economic circles and have had strong desires to invest in Shandong Province. In industrial structure and international division of labour of EOE, South Korea is in a higher grade than Shandong. These will be benefit for both sides. South Korea is the nearest neighbour among the four little dragons. It takes less than one day from South Korea to Shandong by sea. Shandong province must pay close attention to South Korea.