

RESEARCH ON THE MACRODEVELOPMENT STRATEGY OF HAINAN ISLAND

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ABSTRACT: There is a great difference in starting conditions among Hainan Island, the special economic zones and the economic and technological development zones in China, and "the Four Small Dragons" of Asia. Hainan's major superiority is superiority of the special economic zone. The superiority includes two main parts of natural resources and geographical location. In order to give play to the superiority it is necessary to develop the export-oriented economy. As for giving full play to the location superiority, it must be solved that the problems on the investment, the talent and the development models. It is very important to rely on the superiority of natural resources to develop the products which is necessary for our country and can replace the imports. The rational adjustment on the economic departments in Hainan Province comprises two aspects. The departments of exploiting natural resources must enlarge the processing depth of agricultural products and industrial raw materials, and increase the additional value of the products. The departments of the export-oriented economy must earn more foreign exchange through exports to accelerate the economic development. With regard to the spatial developing strategy of Hainan Province, we think it best to adopt the models of the axis exploitation around the island and the growth poles.

KEY WORDS: Hainan Island, special economic zone, development strategy, economic structure

I. UNDERSTANDING OF THE STARTING CONDITIONS

1. A Great Difference in Starting Conditions between Hainan Island and "the Four Small Dragons" of Asia

Before World War II, Taiwan and South Korea had become the colonies of Japan, and HongKong and Singapore the colonies of Great Britain. Capitalist production mode

had gone on for a long time in these regions or countries. The lopsided specialization of Taiwan and South Korea's agriculture had been achieved to a certain extent, and both had developed some resource and assembly industries. Relying on favorable conditions of the location and port, Hong Kong and Singapore became important port cities in the Western Pacific Ocean. After the war Taiwan and South Korea became the strategic places of United States and had obtained a vast amount of economic and military support from United States. The monopoly capitalist groups of U.S.A. and Japan provided effective economic and technological support for "the Four Small Dragons" of Asia. The prices of raw and processed materials and energy in the 1960s were quite cheap. It was a prosperous time for the Western Countries to export capital, the market competition wasn't so far fierce as now. The above-mentioned favorable conditions speeded up the economic development of "the Four Small Dragons".

The starting conditions of Hainan were quite different from them. Hainan is now a rather poor and backward province in the coastal regions of our country. Hainan's per capita gross national product (GNP) was 1398 yuan (RMB) in 1989, according to the exchange rate of U.S. dollars, it was less than one-twentieth of Taiwan. The income of one-sixth population of Hainan is below the poor line. Hainan's industrial structure is rather backward. Hainan's total output value in industry and agriculture of 1989 was 10.35 billion yuan. The proportions of agriculture and industry were 62.3% and 37.7% respectively. Hainan's industrial labor productivity is 61% and rice yield per unit area is 57% of the country's average levels. At present the economic foundation of Hainan is still weak, the productivity is comparatively low, especially it is seriously short of infrastructure capital and talented personnel, which results in an inability to bring Hainan's superiority and potentialities into full play. Hainan's superiority is deficient in "making-blood ability" now. If we want to achieve high-speed economic growth in Hainan, we must transfuse "blood" in a large scale to the province.

2. Essential Distinction of Hainan Island from the Special Economic Zones and the Economic and Technological Development Zones

Firstly, the special economic zones and the economic and technological development zones are all point-shaped development, while Hainan Island is the overall regional development. The former belongs to the urban social-economic form and the latter roughly belongs to the economic form of agricultural society and primary urbanization. The development of the latter is much more complex and more difficult than the former, and the regional and comprehensive features are more outstanding.

Secondly, the special economic and technological development zones all rely on large cities with a high development level as backing. There are not any larger and more attractive cities in Hainan Island now. By the end of 1989, Haikou's nonagricultural population was only 263,700, and there weren't any universities and research institutes which reached

the domestic advanced level, and there weren't any universities and research institutes which reached the domestic advanced level, and there were few high-technological industries. It is difficult for Haikou City to play the leading role of the growth pole in all the province at present.

Thirdly, the special economic zones and the economic and technological development zones all have their influencing ranges. But Hainan Island is alone situated in the South China Sea. The special economic zones are the windows of opening to the outside world. The economic and technological development zones effect the cities within them. The model of Hainan Island development has not commonly exemplary and directive significance because Hainan Island is quite different in basic circumstances from most regions of our country. Conversely, the models of economic development available in China aren't suitable for overall development of Hainan.

Fourthly, the important difference between the special economic zones, the economic and technological development zones, and Hainan is also displayed in the supply of resources factors. The former takes the city type resources as the development key, e.g. industrial equipment, modern science and technology, skilled labour force, etc. The exploiting object of Hainan is different from the former. It includes the above-mentioned city type resources, emphatically utilizes natural resources of Hainan Island. Hainan's economic development should take domestic market as backing and take international market as guidance.

3. Hainan's Economic Development Being in a Sharp Competitive Environment

One is competition from Japan, "the Four Small Dragons" and the up-and-coming countries of Asia. Though Hainan Island is rich in the natural resources, the raw and semifinished materials or primary agricultural products can't create high output value because the resources aren't processed in deeper levels. Hainan lacks large deep-water ports like Hong Kong, Singapore, Gaoxiong and Pusan. The communications and transportation with in the island is undeveloped. As to high-tech development, there are strong opponents such as Japan and "Four Small Dragons" only in East Asia. As for processing and assembling of labor-intensive products, Hainan is facing serious competition from Thailand, Malaysia and Indonesia although it may enjoy preferential policy of our state. Hainan, as a province of China, no matter how high its open degree is, and how flexible its economic policies are, there is an upper limit that isn't gone beyond, that is the whole interests of our country. Under the capitalist production mode, as independent or dissociated administrative areas, "the Four Small Dragons" have a greater developing free degree than Hainan, For example they have their own monetary and financial systems. If Hainan had its own one the disadvantages would outweigh the advantages.

Another is competition from the coastal regions of the mainland. The economic strength of the developed coastal regions of our country, especially the Changjiang

(Yangtze) River Delta, the Zhujiang (Pearl) River Delta and the Greater Bohai Region is much stronger than that of Hainan. Beijing, Tianjin and Shanghai are endowed with a large number of scientific and technical personnel, managerial staff and experts in international finance and trade, they are also important education centres in China. Hainan's universities and research institutes are in the stages to be established or extended. It is difficult for them to play leading and supporting roles of science and technology. Even if a great number of talent are introduced, it will be a rather long time for them to meet the needs of Hainan's constructions. The special economic zones and the economic and technological development zones are superior to Hainan in absorbing foreign investment and processing materials supplied by foreign businessmen. And the economic points are easily successful rapidly in comparison with the economic regions because infiltration and proliferation of the investment need a longer course from economic centres to attraction areas. Low productivity and weak economic and technical strength still predominate in Hainan because of the existing poor economic foundation, so there is a hard way to go in order to bring about a real economic vitalization.

II. UNDERSTANDING OF THE SUPERIORITY

What is the main superiority of Hainan? Up to now, there are many different views on this problem in Chinese academic circles. According to the development course of postwar world's economy, we should attach great importance to some circumstances which have universal regularity.

Since World War II, the nations or regions which developed very fast (except the OPEC nations) all possessed superior geographical locations, but they were not rich in natural resources. The typical examples are Japan, Hong Kong, Singapore and South Korea. They gave full play to locational superiority of economic geography and relied on the technical factor that was more and more important so that they achieved high-speed and continuous economic growth. Taiwan's overall development wasn't fully based on its own resources though it is rich in natural resources. Taiwan's capital accumulation and industrial escalation were realized by means of exporting labor-intensive products, which included mainly accepting jobs with materials supplied by clients and assembling components and parts. Comparing with above-mentioned nations or regions, the growth speed of most countries such as India, Indonesia, Brazil and Australia which abound in natural resources were much slower.

The position of raw material economy is becoming low day by day and coming apart with processing industry, progressively. It is a main structural change in the development course of modern world's economy. The prices of non-petroleum products steep fell during the early 1970s. In recent years, comparing with the labor service prices of manufactured goods, the prices of raw materials have dropped to the historical lowest levels to set a re-

cord. In the middle stage of the 1980s, petroleum price steep fell step by step. Depression and stagnation of raw material economy didn't lead to recession of industrial economy, the processing industry was increasing steadily and continuously. Primary product sector in industrial economy has retrograded from central sector to frontier sector. The important of raw material to modern industry fallen increasingly.

The high-speed economic growth often brings about descending of ecological environmental quality quickly. Actually, the faster the economic growth speed is, the more fully the resources and labor population are utilized, and often the more seriously the environmental pollution and ecological disturbance are. Rational determination of sectoral and regional structure of industrial development areas can effectively reduce environmental pollution.

Technological progress is gradually becoming leading factor in the course of output value growth. In postwar industrial growth of developed countries, the growth produced by capital accumulation only accounted for 15-20% of the growth rate of the total output value, and the greater part of growth rate was obtained by technological progress and industrial escalation. In the light of the actual conditions of developing countries or regions, introducing intermediate or appropriate technologies is more beneficial than introducing capital-intensive type of technology.

For the above-mentioned reasons, we think, Hainan's major superiority is the superiority of the special economic zone, which includes two main parts: natural resources and geographical location. Hainan's chief superior resource is tropical resources, which include tropical climate and land resources, tropical biological resources, especially tropical crops. The restrictive factors are mainly cold wave, typhoons and drought. The secondary superior resources include mineral deposits (rich iron ore, titanium, cobalt, quartz-sand, petroleum and natural gas, etc.) and aquatic resources. It is necessary for us to give play to the superiority of Hainan's resources to produce substituting imported products facing domestic market. Endowed with excellent locational conditions, Hainan holds great prospects:

1) Located in the prospering Western Pacific arch belt, Hainan Province is a shortcut to world market, especially to Asia-Pacific market.

2) Hainan is close to Hong Kong, Taiwan, Macao and faces Southeast Asia, and also well known Chinese hometowns. It will certainly benefit funds and technology supplied by overseas Chinese and Hong Kong and Macao compatriots.

3) Circled by the sea, located in the middle section of the South China coast, Hainan's unique favorable geographical location makes it strategically important to international shipping on the South China Sea. Hainan is also an important base of developing the South China Sea and Beibu Gulf.

4) Hainan has convenient passageway as well as a foundation of division and coordination with the economic developed coastal areas of the mainland, particularly the Zhujiang River Delta. Meanwhile, being separated with but also close to the mainland,

Hainan is a place most suitable for setting up a thoroughly open special economic zone. To give full play Hainan's locational superiority should face the international market and take the export trade as leading and to develop greatly export-oriented special zone economy.

III. GIVING PLAY TO SUPERIORITY OF THE SPECIAL ECONOMIC ZONE AND ESTABLISHING THE DEVELOPMENT MODEL WITH DISTINCTIVE HAINAN'S FEATURES

Hainan Province was established and determined the largest special economic zone of our country in April 1988. Hainan Province enjoys a considerable degree of decision-making power in developing economic cooperation and exploiting the island's natural resources with foreign investors. This is greatly conducive to giving free rein to special zone's superiority. Hainan Island is now on the key position in which the local traditional economy and the international market economy act each other. A basic point to bring into play the superiority is to carry out the main part change of Hainan's economy by means of introducing the composition of international market economy. The export-oriented special zone economy should be set up, taking the socialist market economy as the main body. This kind of economy is generally controlled by the mandatory plans and the guidance plans, and adjusted by the law of value, and guided by foreign trade and export in its development. The key of utilizing the special zone's superiority is to pursue special economic system and implement special economic policies in the limits permitted by the state in special economic areas. Success or failure of the Hainan special economic zone hinges on import and export in a large scale. Hainan's economy is not only a component part of Chinese economy, but also plays an exemplary and vanguard role.

Hainan is very rich in natural resources. With regard to their present economic significance, the first is tropical resources, the second is mineral deposits, the third is fishery, the fourth is water conservancy resources and fifth is tourist resources. Hainan's development and construction must rely on the resources superiority of the island, tap the potential of existing enterprises, finance their technical transformation and stress better economic results so as to build an economic structure with Hainan's characteristics step by step. To be precise, the superiority of Hainan's natural resources is directed against our country instead of the world-range. Therefore, Hainan should rely on its superiority to develop the products which is necessary for our country and can replace the imports according to its conditions and domestic demand. The key of problems is how to transfer the raw material economic form with lower level into the processing economic form with higher level. We think, Hainan's development must be based on its own natural resources to build a modern economic system. Hainan's key construction in this century should include the following six major sectors: construction of transport and communications, exploitation of energy resources, exploitation of mineral resources, development of electronic industry, development

of agricultural and farm produce processing, and tourist industry.

Hainan's tropical crops hold an important position in our country, which cannot be replaced and should be enlarged actively. Hainan is characterized by its warm climate, long hours of sunshine and snow-and-frost-free weather all year round, which provides favorable natural conditions for growing tropical cash crops, such as rubber plants, coffee and cocoa beans, cashew nuts, varieties of tropical fruits and medicinal herbs. More than 50% of the island the whole is land is good for tropical plants. Hainan natural conditions make the island an ideal place to develop high-class, high-quality and high-value fine agriculture, e.g. improved seeds, reputable fruits, rare wood, anti-season vegetables and melons, medicinal herbs, flowers prawns, grouper, etc. From now on, the main directions of Hainan's macro-agricultural development are to play the role of replacing imports and to meet the mainland's demand for tropical crops, especially rubber as strategic supplies.

Hainan's economy taking off (reaching annual GNP us \$ 500 per capita) need an investment of 50 billion yuan. If Hainan's economy wants to reach the intermediate developed level (annual GNP US \$ 2,000 per capita) the investment of 200 billion yuan at least is needed. Owing to the confinement of the national strength, it is difficult for the state to invest such a vast amount of money. The ways of raising funds are mainly as follows: absorbing foreign investment, adopting more liberal policies instead of the national investment, mobilizing the strength of overseas Chinese and Hong Kong, Macao and Taiwan compatriots.

The problems about Hainan's labor force are low cultural quality and much less scientific and technical and managerial personnel with middle and high levels. Since Hainan's culture and education are backward, it is necessary for Hainan Province to introduce essential talent in a large scale from the mainland. Hainan Province would create an advantageous qualified personal circumstances in order to bring about a great advance in local economy.

Hainan Province should adopt comprehensive-type of special economic zone's model and persist in the guiding principles for reforming and opening to the outside world, develop comprehensive economy composed of many kinds of trades and build "the special economic province" which carries out socialist market economy. The economic main body should be changed from one relying on closed semi-natural economy to one favouring open system of market economy, by means of enlarging import and export trade to promote a balanced development of industry, transportation, construction, information, commerce and public services in Hainan. Hainan should, based on investment environment and aimed at the international market, transform its old function and introduce investment from abroad and establish lateral ties at home. The development main body should be changed from present managerial systems which organize economic activities along the lines of government ministries and administrative regions to the business groups which own abundant economic strength and larger rights to manage one's own affairs. The structure of

ownership will realize a combination by the whole people, collective and private owns hip as well as joint ventures and exclusively foreign-financed enterprises. The productive main body should be changed from extensive to intensive types, from depending on the input of material resources to relying on technological progress to develop the processing business and to increase the ratio of new industries, to make Hainan an important base and a pioneer in the country's construction.

IV. OPTIMAL READJUSTMENT OF THE ECONOMIC STRUCTURE

1. Optimal Readjustment of the Sector Structure in Double Directions

What is called optimal adjustment in double directions refers to the optimal courses of Hainan's sectors of resource-type economy and export-oriented economy. The aim of the resource-type economy is substituting imports and the aim of the export-oriented economy is earning foreign exchange through exports.

The key of the resources type of economic sectors optimization is to enlarge processing depth of and farm and sideline products and industrial and mineral raw materials, to raise additional value of primary products greatly. It is necessary for as to pay close attention to two respects:

1) The scale of local processing industry which takes agricultural products and mineral resources as raw materials must be enlarged to form a basically integrated industrial system. Food, chemical, building materials, iron and steel industrial sectors are the key of investment and technological renovation.

2) The technical structure of the resource type of processing industry must be improved. Hainan should speed up the readjustment of its industrial structure and technical renovation of existing enterprises to raise the proportion of new resource type of industry in the total industrial production.

Hainan's industry should reduce their energy and raw materials consumption, upgrade their product quality and increase product varieties. The products either export abroad or replace imports.

The optimization key of the export-oriented economic sectors optimization is to earn foreign exchange through exports, which means to make full use of foreign funds, technology and raw materials, to participate in the international market competition actively, by means of opening to the outside world to invigorate the island's economy, relying on import and export on a large scale to speed up Hainan's economic development. This optimal course includes three respects:

1) The industrial structure takes industry as the key while making agriculture of earning foreign exchange and tourist industry subsidiary. In Hainan's enterprises, the proportion of sino-foreign joint ventures, sino-foreign cooperative enterprises and exclusively

foreign-funded businesses must be enlarged.

2) The investment structure should give the first place to foreign funds. The emphasis to use foreign funds in the near future should lay on new items for export, such as processing of imported materials according to supplied sample and designs, further processing of primary products for export, and certain important exported products transformed by advanced technology, and manufacturing of substitutes for imports and materials in short supply in China.

3) The trade structure should give priority to earn foreign exchange through exports. Hainan's export value must be increased continuously. The speed of export growth will be higher than that of the national economy growth.

2. The Development of Axis around the Island and the Growth Poles

Hainan Island is an undeveloped district. Its development strategy should select unbalanced development instead of balanced development. The unbalanced development should adopt the model of the development of axis around the island and the growth poles. The reasons are as follows:

1) The emphasis of investment has to lay upon the sectors or districts which have better economic gains because Hainan's capital construction funds are limited at present.

2) Hainan's coastal regions have the ability to absorb advanced technology and managerial methods, to achieve economic results. The coastal regions occupy more advantageous positions than the interior of the island.

3) The axis development and growth poles have more advantages than the plane development because they have better social and ecological benefits.

We should divide the island into some economic zones with larger cities as their centres in accordance with the model of axis development, and in the light of the distribution of natural resources and geographical features of the island, so as to speed up the economic construction of Hainan. The axis development is mainly to utilize fully convenient ocean and land transportation conditions and existing economic foundations and to impel the island's economy to become the export-oriented economy and strengthen the ties between the island and the mainland continuously. The key of axis development is to build modern railways, expressways and deep-water ports around the island.

In terms of regional development of Hainan, we think the growth pole theory which is suitable for the developing countries and regions can be adopted. In view of lacking state investment and foreign exchange, the economic development of Hainan should be unbalanced in regional growth. It means that finite investment should be concentrated on the districts or sectors with best economic benefits. By means of shifting the funds of production and construction from the low economic benefit sectors to the high economic benefit sectors, the strategy of growth poles may speed up the development of overall economy. Hainan should determine some more efficient growth poles so as to promote the

export-oriented processing industry. Applying the growth pole theory to the island, Hainan may concentrate finite man power, material and financial resources to build development bases quickly and obtain good economic benefits. The growth poles of Hainan Province are determined as follows: grade I growth pole only including Haikou City; grade II growth poles including Sanya City, Yangpu zone in Danxian County, and Basuo-Shilu industrial corridor; grade III growth poles including 12 cities or towns.

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