

Transition of Regional Policy in China during the thirty year Reform

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Abstract

The paper studies the evolution of regional policy in China during the 30 years of reform in five points: a review of the regional policy in the pre-reform period; the transitional characteristics of the regional policy during the reform; the formation of a complex regional development strategy; the re-orientation of the regional policy and a general appraisal of the prospect for regional policy. It depicts the evolution through three transitional characteristics:

- 1) Implementing an uneven regional development strategy;
- 2) Promoting regional cooperation and
- 3) Developing two approaches to urban development.

There are two main threads throughout the evolution - the opening up strategy and the East-West relationship within China, which provide the institutional background. Enjoying some enormous economic achievements, regional policy is also troubled by serious problems such as increasing regional disparities. A value re-orientation is proposed by the Chinese government to help achieve sustainable development under the constraints of the Chinese situation. Finally, a brief appraisal and forecast is made on the on-going reform of regional policy in China.

Keywords: regional policy, China's Reform, opening up, East-West relation

1. Introduction

Regional policy study¹ should have regard to the complexity of regional development and its policy. Different institutional environments or development stages may result in different regional policies. The regional policies in the USA and Europe, where the market economy is well-developed, mainly target developing institutions for their market economies and regional problems occurring in industrialisation, for example, depressed old industrial areas and less developed regions (see Stillwell, 1972). Studies and applications of regional policies began in the 1930s in the UK and boomed after World War II (McCrone, 1969: p.13). Policy design instruments have been significantly improved during nearly eighty years of practice.

In the modern world, China's regional policy was firstly produced in the so-called Planning Economy era (1949 – 1978), when the national economy and especially the industrial sector was less developed. Since the 1978 Reform, when economic development became the main subject of policy making, regional policies/strategies, such as Coastal Development Strategy, Metropolitan

¹ In this paper, regional policies are focused from an economic perspective.

Growth Pole Strategy, Western Development Strategy, Rejuvenating Northeast Strategy and Developing the Middle Area Strategy have come to the centre of academic study.

China's contemporary regional policy (since 1949) has three characteristics: *First*, the policy is made at the macro level and targets (geographically) *grand* regions. Its objectives are clear but policy instruments remain unclear. *Second*, the policy centres on the East-West relationship, e.g. the coastal East vs. inland West in the Planning Economy era; then development of the three grand regions – East, Middle and West – in the Seventh Five-Year-Plan (1986-1990), and recent subdivision in four regions: East, Middle, West and Northeast (since 2000). The transition of policy embodies the coordination of contradictions between the East and the West in different periods. *Third*, the policy is highlighted by the opening up strategy, i.e. moving from the Planning Economy to the Market Economy through the introduction of new resource allocation processes, needing many reform measures, such as the state-owned enterprise reform and fiscal decentralisation, which have strong influences on regional economic development.

However, Chinese mainstream economics criticize regional policy in China that it is not well formed while some extreme arguments even deny its existence (ZHANG Keyun, 2006: pp. 479-481). Such arguments use Western criteria to evaluate regional policy in China, while largely ignoring the *de facto* impacts that various policies had on regional development during the past fifty years. According to ZHANG Keyun (2006: p.9), regional policy can be considered in a broad and a narrow sense. In the broad sense, many macro economic policies have real and large impacts on regional economic development through locality-favouring measures. It is for this reason that Chinese local governments pro-actively look for preferential policy support from the central government. In the narrow sense, China is really short of a complete range of specific policies which are clearly classified for regions by problems and supported by well-designed policy instruments such as there are in European developed market economies. Still, the Chinese government implemented policies to promote Special Zones and Development Zones as well as poverty reduction policies targeting the least developed localities. In recent years, the central government has worked out a series of policies for revitalizing old industrial bases and developing rural areas. Relevant fiscal, land and population policies are also in progress. The central government seems to prefer a combination of industrial, spatial and fiscal policies to individual regional policies, but the main problem is a lack of policies for problem regions.

This paper aims to make a general appraisal of the evolution of regional policy in China against the background of China's Reform. The presentation adopts a historical and institutional analytical methodology, through a comparative study of institutional arrangements between the pre-Reform and reforming China, to analyse the most significant transitional characteristics and two main threads throughout the evolution. The appraisal, with both positive and negative opinions, is expected to contribute to develop regional policies to conform to China's economic and social growth.

The following part of the presentation is divided into five sections: The first section reviews regional policy in the pre-Reform China. The second section introduces the characteristics of the evolution of the regional policy in China after the Reform began in 1978. The third section analyses

the opening up strategy and the East-West relation along with the evolution. The fourth section introduces the value re-orientation of regional policy since the beginning of the 21st century, which focuses on sustainable development. The fifth and final section presents a short appraisal of the current macro-level regional policy (or better say, strategy) in China and the prospects for future regional policy in China.

2. A short review of regional policy in the pre-Reform China

The regional policy in pre-Reform China cannot be simply considered as a product of the planning economy. Of course, the economic situation imposed essential institutional constraints, but the national situation and international relations during that period were decisive factors.

The People's Republic State of China was founded facing tense international relations (such as the Cold War between capitalist and communist camps). 'Preparing for war' was the primary task for the then Chinese government. Self-reliance was not China's favourite strategy of development but was forced by international relations which were aggravated by the blockade on China, both from economic and political perspectives (See ZHU Kai, 2008, Chapter 2).

In the pre-Reform China, promoting industrialisation and balanced regional development were the most urgent economic tasks for the (central) government. Leaders believed that only industrialisation could reinforce China's economy and that a more balanced regional development by developing the inner-land could avoid the over-concentration of production in the coastal area and better defend the national economy (according to MAO Zedong's speech "on the ten major relations" in 1956). This belief became the guideline for China's policy-making in the 1950s and 60s. For example, product materials had priority over consumption material; heavy industry had priority over the light industry; the defence industry had priority over all other industries and that 'production preceded/came before living'. Owing to such guiding thoughts, the Middle and the West of China were favoured by the central government to develop productivity until the Reform in 1978.

In practice, regional policy in the pre-Reform China can be illustrated by the transition from the first (1953-1957) and the second (1958-1962) 'Five-Year-Plans' (FYP) to the 'Third-Front Construction' Programme (1966-1975)².

In the 1950s, when the first and the second Five-Year-Plans were implemented with support from the Soviet Union (represented by the '156 key industrial projects'), the economic focus was still on the East, especially the Northeast, with only a few projects in the West (ZHANG Yu, 2008: p. 400).

In the 1960s, China faced not only the blockade from the capitalist countries (the USA in particular), but also the military revenge of the Nationalist Party from Taiwan. In addition, the deterioration of the Sino-Soviet relations urged the Chinese leaders to develop the strategic rear area for China's defence. Hence, in the third 'Five-Year-Plan', the national industrial layout was designed to pursue

² The 'Third-Front Construction' was first proposed as a military programme in 1962, then launched as a regional policy in order to improve national defence capability and industrial layout during the third (1966-1970) and the fourth (1971-1975) FYPs.

balanced regional development and the 'Third-Front Construction' was launched to prepare for war. A strategic rear area in the inner land (West and Southwest) was built to provide complex industrial and agricultural services to the national defence and was set to be the core of the Plan (LIN and LI, 1992; CHEN Donglin, 2006). During the programme period, the central government significantly increased its investment in the Third Front such as the western area. Many enterprises (at that time, most of Chinese enterprises were state-owned) in the eastern area were obliged by the state to support the Third Front by sending labour and setting up subordinate firms there (ZHANG Yu, 2008: pp. 400-401).

Although current mainstream economists often criticize the low economic efficiency of the 'Third-Front Construction' programme due to the wrong industrial layout, geographical and topographical constraints and the lack of supporting industrial development planning, it is obvious that in the western area, the local transportation infrastructure was significantly improved and several local industrial centres were formed. But these centres were not given enough time and funds to complete their economic take-off, as the 'Third-Front Construction' programme was interrupted in the mid-1970s and later the investment focus was transferred to the eastern area. **But their potentials in terms of industrialization and urbanization will be stimulated once the national policy becomes more 'friendly' toward the Western regions (e.g. allocating more pro-active investment policies and programmes to the Western regions)**

Another important feature of the regional economy in the pre-Reform China was the Economic Cooperative Zone (ECZ) which was a particular practice of the Soviet Territorial Production Complex Theory (WANG Yanghong, 2009). Due to the size of the country and its many geographical differences, administrative provinces were clustered under the direction of the central government to be ECZs. Each ECZ had a prefecture-level government and embodied a set of administrative, military and economic management functions. Social economic activities could be organized in the ECZs to optimize the division of labour and remove administrative blocks in order to promote economic cooperation between inter- and intra- provinces, cities and localities. However, the ECZs did not achieve as much as leaders expected and therefore, development guidelines gave priority to national defence. Once this priority was made, regions and localities were forced to ensure the somewhat independent agricultural and industrial production systems. In addition, the state wasted much time and resources in political movements.

3. Transitional characteristics of regional policy in China since the Reform

Owing to a set of worldwide political and diplomatic events in the beginning of 1970s, the hostile international relations between China and her 'capitalist rivals' were released and gave China's leaders a precious opportunity to launch an economic reform in 1978. The opening-up strategy replaced the pre-Reform autarky strategy and rapidly boomed the exportation-oriented industries. The market-orientation also stimulated the private sector which broke down the monopoly of state capitalism and accelerated economic growth especially in the Eastern area. The dramatic institutional transition in the previous socialist countries in the beginning of 1990s and the wave of globalization and regionalization in the following years reinforced the market-oriented reform. In the following thirty years, the Reform rewarded China with an amazingly growing economy, which

is praised as ‘China’s miracle’ (LIN Yifu *et al*, 2002). The influence of the Reform on China’s economy is not limited to the GDP volume or growth rate. Due to the multiple characteristics of the Reform such as gradualist, experiment-led, both state-led and grassroots-promoted approach³, regional policy has experienced a significant evolution. This section illustrates the evolution from three perspectives: development pattern, regional cooperation and urban-rural relation.

a) East at the focus: An uneven development strategy

When the Reform began in 1978, the world was facing rapid globalization and economic regionalization. DENG Xiaoping, then leader of China, managed to update the regional policy in China and proposed the transition from a pre-Reform unbalanced regional development to an uneven regional development. Since then, the ‘staircase-like development model’ has become a favourite of Chinese scholars (LI and ZHAO, 2008).

Economic growth was placed at the centre of China’s policy making and economic efficiency was given priority. Taking advantage of the coastal position and following the exportation-oriented economic model, the East was chosen by the central government to be the main recipient of preferential means, including Special Economic Zone, prioritization in coastal area development etc. Such policies were not only region-focused, but also involved with industrial, state-investment, fiscal and territory development policies. At the same time, mechanisms of the market economy were quickly introduced to the East, in particular the Southeast area (e.g. Guangdong Province). Benefiting from both central planning and market dynamics, all productive factors flew into the East and facilitated the formation of regional growth poles (see LIN and LIU, 1997: pp. 4-8).

b) Regional economic cooperation

The idea of an Economic Cooperation Zone was revitalized by ‘decentralization’ (i.e. the central government allocated much power of economic policy decision to local governments) to promote factor mobility and marketization across regions and localities. Encouraged by the State Council in 1979, ECZs began to give up the national defence-centred principle and the regional independent economic and industrial system, while paying more attention to the horizontal cooperation among provinces, cities and even counties. A special government office – Economic Cooperation Office (later renamed as Investment Promotion Bureau) – became popular in the following years. In 1986, the State Council put forward a regulation to normalize the horizontal cooperation between firms, industries and regions. Up until 1987, there were more than 100 ECZs across the country at various scales, at different administrative levels and each was embodied within different industrial visions. ECZs greatly stimulated the pro-activity of local governments and firms as they played an important role in optimizing a regional industrial structure by developing the commodity economy and the market economy in China. Benefiting from the rapid urbanization, industrialization and regionalization, ECZs are now a critical part in Chinese regional planning.

c) Promoting urbanization

For a long time in the pre-Reform China, rural areas and urban areas were equally emphasized by

³ See a synthesis of five main characteristics of China’s reform in ZHU Kai, 2008: pp. 117 – 125.

considering the national defence construction and the insufficient labour absorption capacity of cities. Small scale industrial production was easily found in the backyard of peasants' houses, with a sharp contrast to large scale production in state owned enterprises in cities (see the discussion of 'walking on two legs' industrialization method in ZHU Kai, 2008: pp. 77-79). After the Reform began, urban areas as agglomerations of industrial and commercial activities were fully emphasized for their role in economic development. On the one side, metropolises were quickly 'built' and supported by multiple factors such as the boom of private firms, the encouragement of peasants' entrance into cities, economic cooperation among localities, etc ... (SHI and ZHOU, 1997). On the other side, counties, towns and villages developed industrialization within their own territory while local industrial production was scaled up (LIN Ling, 2008; RAO Huiling, 2003). Hence, two tracks of urbanization feature in the reforming China. Different to the large scale enterprise centred urbanization in the pre-Reform period, which focused on the urban production system (i.e. industrialization-led urbanization), the urbanization in the Reform period fully considered civil management. Cities are no longer acting as platforms for the production system; their essential functions of supporting people's living have returned.

4. Two main threads throughout the evolution of regional policy in China

Behind the transitional characteristics, there are two main threads throughout the evolution of regional policy in China during the Reform period. One is the Opening Up Strategy, which provides the institutional guidelines and the other is the East-West (inside China) relations, which are at the centre of conflicts in determining China's spatial development. The following section analyses them respectively.

i) The Opening Up Strategy

The Opening Up Strategy is the most critical part of the economic reform that can be briefly explained as introducing both the market institution (e.g. the price system, the competition mechanism, the resources allocation mechanism, etc.) and external resources (e.g. capital, technologies, managerial knowledge and so on) into China's economy. It has, even more importantly, broken down the ideological constraints over the concepts of capitalism and socialism and liberated people's mind towards innovative institutions. Hence, the significance of the Opening Up Strategy is not limited to 'import-export' boom but to ideological emancipation.

The original method of the Opening Up Strategy was to promote international trade. Following the gradualist approach of the Reform, the strategy was unevenly implemented across the country. Institutional innovation and resources importation firstly favoured the East (coastal areas) and then the strategy proliferated and spread to the neighbouring localities and to the Middle and the West (inland areas) in a staircase-like approach. A main method for the central government to promote the Strategy at the start was to allocate preferential policies (not only region-concerned, but also industry-concerned) to a very limited number of localities. Since the East was at the focus because of its good position for sea trade, it was the biggest winner of the Opening Up Strategy. With the help from both the central government and the market institution, all kinds of resources converged in the East from all over the country and the world as well. Meanwhile, products and goods were

exported to the world from the East and in the 1980s and 1990s, regional growth centres were quickly formed in the coastal areas. Due to the knowledge proliferation effect and the promotion of urbanization, metropolitan areas were consequently built up through regional integration. The Pearl-River Delta, the Yangtze-River Delta and Bohai (Sea) Rim Economic Zone are three growth poles of China's economy.

Encouraged by the economic achievement in the East, the Opening Up Strategy was welcomed by both the central government (there were no more worries about the capitalist erosion) and local governments (eager to improving local economic performance). The Opening Up Strategy was spread over to the inland areas with many methods conforming to local situations. Thanks to the great progress within the transport industry which was no longer limited to sea transportation and included infrastructure construction such as the Asia-Europe continental bridge; air travel or institution-building for international cooperation such as the Shanghai Cooperation Organization, the inland areas can now be more easily connected to the world than ever.

Moreover, the Opening Up Strategy has a two-fold meaning after more than thirty years of practice. One, is to continue the original idea to open up to the world outside China and the other is to promote the opening up in each region, province and locality in order to foster regional economic cooperation inside China. Therefore, the Opening Up Strategy is not an obsolete idea in the current so-called globalization time and is really the key guideline for regional development in China.

ii) The East-West contrast

Since 1949, the relations between the East and the West of the country have been considered at the core of policy making. Here, the West includes the Middle and the East-West in fact means *the contrast* between the coastal and the inland areas. In Chinese academic tradition, the term East-West is more often used.

Big differences exist between the East and the West in terms of their geographical and topographical situations, their climates, their natural resources endowment, their industrial and commercial heritages, etc. From a strategic point of view, the trade-off between economic efficiency and overall efficiency (economic/regional equality, political stability and social integration) is an unavoidable problem to resolve.

In the pre-Reform period, the Third-Front Construction Programme consumed a large part of the central funds to invest in the West (the third front). Although there was no clearly defined strategy, the East was still leading the national industrialization while the western areas were experiencing an unprecedented occasion of infrastructure construction and enterprise promotion. As the construction in the West was focused on the defence industry, economic efficiency was not fully considered, so the West did not really benefit from an economic take-off.

Since the Reform, economic efficiency has become the most important point in economic decision making. With the implementation of the uneven development strategy, the East was chosen first for

its location advantage so as to accumulate enough capabilities to help the West. Until now, the East has greatly developed its economy but the West lagged far behind in industrialization and urbanization. Considering the economic efficiency of investment, the East is much more attractive than the West. So, the prosperous East continually attracts resources and its economy keeps on increasing and the East-West contrast has become more and more serious in recent years. Furthermore, the central preferential policies still favour the East much more than the West in order to ensure the high rate of national economic growth. The industrial layout shows ‘exploiting resources in the West, manufacturing in the East’. As the price of resources is decided by the market with the macro-regulation, the added value is largely retained in the East.

No one doubts the necessity of economic efficiency and of developing the East at first, but everyone may ask when the West would have enough attention paid to it. At the end of the 20th century, some regional policies were put forward, such as the Western Development. But the specific policies were not sufficient to reduce the East-West contrast as the guidelines to economic decision making did not change. A value re-orientation of regional policy now becomes necessary to adapt the East-West relation to the actual situation.

5 Value re-orientation of regional policy in the 21st century

Noticing the challenge from problems in regional development to the long-run economic, social and political interests, HU Jintao, the current President of China, put forward ‘the scientific view of development’ (analogous to the term ‘sustainable development’) and ‘building up a harmonious society’ in the beginning of the 21st century. In the framework of the new concepts, a set of regional policies have been proposed in the past five years, targeting less developed regions. These regional policies are grouped into a new spatial development strategy which can be summarised as “continue to develop the West, rejuvenate the Northeast old industrial base, foster the take-off of the Middle, and pro-actively support the East’s leading role in economic growth” (finally defined by the President HU in the 17th National Congress of China’s Communist Party on October 15, 2007, translated by author). Although economic efficiency is still emphasized and the economic growth in the East must be sustained, the new strategy indicates the value re-orientation of regional policy. The inland areas such as the Northeast, the West and the Middle return to the centre of regional policy making.

Regional development planning was brought about with five targets to support the new strategy (Zhu Houlun, 2004: p.52-53):

- accelerating the physical infrastructure construction, e.g. large and middle scaled irrigation works, transportation, energy exploitation projects, telecommunication and urban construction;
- reinforcing the protection of the ecological environment;
- reinforcing and industrializing agricultural production, restructuring industry and taking advantage of mineral resources, developing the ‘characteristic economy’ and tourist economy, and developing high-tech industries in the localities where conditions are met;
- developing education and cultural industries and
- deepening the Reform and continuing to ‘open up’.

The new strategy needs time to embed. It also requires supportive institutions, organisms and concrete measures to implement.

6. Conclusion

This paper has briefly introduced the evolution of regional policy in China during the thirty year Reform. Firstly, it reviews the regional policy in the pre-Reform period. Hostile international relations forced the socialist China to emphasize defence-led regional planning with little international cooperation. The inland, in particular the western area, was highlighted as the third front to receive the central funds and construction programs. Economic Cooperation Zones were also promoted but no real regional economic cooperation was achieved. Since the Reform began in 1978, the Opening Up Strategy and the emphasis on economic efficiency led the East – the coastal area – to benefit from the central preferential policies and market mechanisms. Based on growth poles, the market expansion facilitated regional economic cooperation and urbanization, which resulted in the formation of metropolitan areas. Meanwhile, industrialization in towns and villages also promoted urbanization there and formed the two-track urbanization. Yet regional disparities, especially within the East-West contrast, became a serious challenge to China's economic development, social integration and political stability. At the beginning of the 21st century, regional policy evolves with value re-orientation. More measures to promote economic take-off in the West – or better say, the inland areas – are incorporated into the new spatial development strategy. When economic efficiency is still at the focus of policy making, concerns about reducing regional disparities, ecological compensation and industrial layout are highlighted in order to achieve a sustainable development and build up a harmonious China. However, concrete policies and policy instruments are still in need to implement the sound new strategy. More research should be made in this vein.

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