University of Toronto – York University
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China's Regional Development: Trends and Implications

Victor C. Falkenheim

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University of Toronto-York University
Joint Centre for Asia Pacific Studies
Suite 270, York Lanes
York University
4700 Keele Street
North York, Ontario
CANADA M3J 1P3

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Director, Eastern Asia Regionalization Research Program: Paul M. Evans
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Series Preface

What lies behind the dynamic economic growth that East and Southeast Asia have experienced in the past two decades? What is the extent of economic integration in the region? Is the process of regionalization likely to foster distinct regional institutions and processes? What are the specific connections between economic, social and political development? How do the security issues of the post–Cold War agenda link to development concerns? What strategies are Eastern Asian governments using to integrate into the region and what devices are they using to protect themselves from the accompanying environmental and social dislocations? What implications do these changes have for Canadian developmental assistance programs in the region?

These are some of the questions that are being addressed in an innovative three-year research program supported by the Canadian International Development Agency and administered by the Joint Centre for Asia Pacific Studies.

The main element of the program is the commissioning of some thirty papers prepared by academic specialists in Canada and Asia. The immediate audience for the papers is officials in the Asia Branch of CIDA and their colleagues in other government departments.

An additional objective, which CIDA has encouraged, is the enrichment of public discussion of Canadian interests and involvement in the region. This is being pursued through broader dissemination of the papers and through a series of meetings involving government officials, academics, businesspeople and representatives of nongovernmental organizations.

We are thus grateful to CIDA for permitting us to publish in slightly altered form some of the papers produced for the project. It should be emphasized that the views expressed are the responsibility of the authors themselves and not CIDA.

Paul M. Evans
Director and Series Editor

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About the Author

Victor C. Falkenheim is currently Professor of Political Science and East Asian Studies at the University of Toronto. His research interests include China's economic reforms, trade and investment and regional political and economic development. His publications include *Chinese Politics from Mao to Deng* (1989) and articles contributed to collected volumes and scholarly journals. He has previously served as Director of the Joint Centre for Modern East Asia and as Chair of the Department of East Asian Studies.

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Executive Summary

Few issues in development assistance are as critical as those touching on spatial and geographic balance. Spatial issues directly affect core development objectives, particularly equity and political sustainability. And their impact is most marked in political systems characterized by strong interregional tensions. Whether spatial disparities are reinforced or ameliorated by aid choices, and whether centrifugal tendencies are magnified or reduced are critical considerations in aid program design.

China in the Deng era has been marked by rising interregional tensions, in part as a consequence of the decentralization reforms of the past decade. Fears that growing regional disparities will lead to political fragmentation have fuelled a debate over the scope, causes and significance of regional inequalities.

On the basis of evidence from the past decade of reform, it appears that these fears are exaggerated. Many regions have benefitted from the reforms, and no clear pattern of winners and losers has emerged. Moreover the central government has taken vigorous steps to contain the most severe disparities, while embracing a rapid growth premised on trickle down theories of income equalization.

In the light of current Chinese policy, there are many ways in which Canadian programs can assist China to achieve its long-term interregional equity goals. Options include infrastructural and market development initiatives which will contribute indirectly and in the long term to these ends, or locally focussed poverty alleviation programs which will directly address local developmental disparities in the short and medium run.

Introduction

Ameliorating historic regional disparities has been an enduring priority for China's socialist government since the Communist Party's (CCP) assumption of power in 1949. While interregional inequalities and tensions were successfully muted during the Mao era (1949–76) by means of an regional equalization policy implemented through interprovincial fiscal transfers, they have flared seriously in the Deng era (1978–).

The main catalyst for emerging regional tensions has been the market-oriented decentralization reforms of the 1980s which have led to increased provincial assertiveness and intensified interregional economic rivalries. These have been further aggravated by preferential central policies favouring the coastal regions over the interior and by an apparent decline in the capacity of the central government to maintain its traditional redistributive role. Fears of widening disparities in growth rates and income among provinces have led to vocal complaints by local leaders, awakening broader concerns over possible future political balkanization (Chang 1992).

Despite mounting attention to what Chinese analysts label the "East-West Gap," there is little consensus among Chinese or western economists regarding the magnitude of current regional disparities or on the speed and direction of trends underway. Equally, there is little agreement on how to weight the various determinants of differential growth rates among regions. And by extension, there are few shared views about optimal remedies.

The result has been a wide-ranging debate within China and without, focussing on four main issues. The logically prior first question is largely empirical, asking to what extent the policies of economic reform and "opening" to the outside world have, in fact, led to demonstrably widening regional inequalities. To the extent that these are documentable, what is the nature of the resulting inequalities and how rapidly are they growing?

The second set of questions explores the dynamics of differential regional development, probing the causes of divergent growth patterns. Is the main factor the shift in national policies on regional development? Or is it shifting central investment priorities? Or is it differential access by provinces to international trade and investment opportunities? Or is it different levels of marketization among provinces? Or is it China's still seriously skewed price, tax and fiscal structures? More broadly, to what extent are emerging regional differences an inescapable by-product of economic restructuring?

The third issue in the debate centres on what remedies are available to mitigate regional income disparities and what are the costs and benefits of those remedies? Finally, analysis has focussed on the political implications of arguably growing regional disparities.

Two competing perspectives are discernible in the public discussion of these issues. The first contends that spatial inequalities are growing rapidly, with a wide range of structural and locational advantages acting in a cumulative and reinforcing manner to produce high growth rates in already more developed regions. In this view, the prognosis is for accelerated spatial divergence in the next decade. The second view argues in contrast, that such judgements are premature. Instead, adherents of this perspective conclude, on the basis of data from the first decade of reform, that overall levels of interprovincial inequality are not markedly deepening, and that the impact of reform on provincial growth rates has been complex and nonuniform. Reform in this view, has brought growth to all regions of China, with many interior regions benefitting from the right to tailor development strategies to local resources. In this view, the more open and politicized policy process has brought local grievances to the surface, generating an exaggerated impression of mushrooming inequalities. Finally, this perspective stresses the powerful residual authority of the national government to maintain a system of subsidies and transfers that mitigates those inequalities which are inevitable.

With regard to remedies, some specialists argue that interregional convergence in income levels will be best secured through freeing up China's internal factor markets, i.e., by pushing the economic reforms through to their free market conclusion. Others stress the importance of continued selective subsidies to lagging regions and an even-handed central policy that allows local governments maximum latitude to develop their own solutions.

The purpose of this paper is to assess the merits of these contending perspectives on the dynamics and consequences of regional development patterns and to explore their implications for Canadian aid programming in China. Following a brief overview of Mao era regional policies, the paper will sequentially address the four main issues in the debate described above, focussing on the extent of reform era disparities; on their causes; on their remedies; and on the political context and consequences of divergent regional development. Examined last will be the implications for Canada's aid program in China.

The Mao Era Regional Legacy

In 1949, the regional structure of the Chinese economy was seriously imbalanced, marked by a large gap in per capita output between the relatively developed Northeast (Manchuria) and large eastern coastal cities such as Tianjin and Shanghai on the one hand, and the rest of the country on the other. Seventy-seven percent of industrial output originated in the coastal areas in 1949. Table 1 demonstrates the lopsided industrial dominance of the Northeast and Eastern regions on the eve of China's 1st Five-Year Plan (FFYP) in 1952.

During the first three years of the FFYP period (1953–57) in an effort to achieve a more equitable distribution of industrial capacity, and to exploit the resources of the interior, 55 percent of national industrial investment was allocated to facilities in the interior in a comprehensive program that combined infrastructure investment, development of extractive industries, promotion of basic industries, such as iron and steel and a wide range of final goods manufacturing including trucks, machine tools, etc. Particularly high rates of investment flowed to Xinjiang, Inner Mongolia, Shaanxi, Qinghai and Gansu, provinces which grew rapidly between 1952 and 1957. Much of this investment centred in eighteen keypoint cities, mostly in the interior, which attracted 70 percent of municipal infrastructure investment and 110 out of an identified 188 complete plant investments from the U.S.S.R. and Eastern Europe (Lardy 1980).

Much of the investment in the less developed regions was financed by a transfer of income from the developed areas, with provinces such as Liaoning and Jiangsu and Shanghai remitting over three-fourths of their revenue to the central government for reallocation elsewhere. Between 1953 and 1957, Shanghai for example produced 20 percent of national industrial output but was allocated only 2.5 percent of total national investment. The result of this shift of resources from the developed regions to the less advanced regions has been more rapid growth in the latter and diminished differentials in per capita industrial output. This trend towards greater convergence can be seen in the 1957 distribution of industrial output data in Table 1 (Lardy 1980).

This shift in spatial differentials, however, was modest and not uniform. Some of the poorer provinces such as Yunnan, Guizhou and Anhui barely advanced in relative terms, and a recent reanalysis of national investment patterns based on newly available data concluded that despite a rhetorical emphasis on developing the interior, the distribution of investment correlated almost exactly with regional economic output through the 1950s (Zhou 1993). The sole exception to this general pattern came in the second half of the 1960s when, for strategic and security reasons, 70 percent of national investment went to the "Third Front" provinces of Sichuan, Guizhou, Yunnan, Gansu, Qinghai, Shaanxi and Ningxia.

The impact of "Third Front" investment on regional income growth however, was limited by the huge waste and inefficiencies of much of this investment (Naughton 1988). The absence of linkage effects and the adverse capital output ratios of these less developed regions diminished the redistributive consequences of much of this investment. The limited impact can be seen clearly in the 1974 data on per capita provincial industrial output contained in Table 1. By the early 1970s investment priorities shifted again to the more developed regions. Of twenty-six large projects with imported equipment initiated in 1972, only three went to "Third Front" provinces while fourteen went to the coastal areas (Zhou 1993, 167).

By the onset of the Deng era, China had made some progress in tackling the highly skewed pre-1949 distribution of infrastructure and industrial capacity, but major inequalities remained. The World Bank's 1983 Country Study found

Table 1
Per Capita Provincial Industrial Output, 1952, 1957, 1974
(national average = 100)

Province	1952	1957	1974
Shanghai	1,864	1,550	1,303
Tientsin	1,244	1,101	1,057
Peking	483	473	632
Liaoning	377	401	297
Heilungkiang	277	219	144
Kirin	166	157	138
Kiangsu	108	83	99
Chekiang	81	78	59
Kwangtung	80	82	88
Shansi	76	95	73
Shantung	73	62	70
Sinkiang	62	65	48
Hopei	60	56	101
Kiangsi	58	52	51
Hupeh	58	75	66
Fukien	53	69	57
Inner Mongolia	45	68	98
Szechwan	43	56	38
Shensi	42	58	63
Hunan	40	41	45
Tsinghai	38	40	59
Kansu	35	36	70
Anhui	35	37	36
Honan	33	29	41
Kwangsi	33	34	40
Yunnan	32	48	35
Kweichow	30	30	33

interprovincial differences (1979) in agriculture (national average = 100) ranging from a low of 65 in Guizhou to a high of over 200 in the suburbs of the larger cities. Disparities in industrial output per capita ranged from 36 in Guizhou to 1,106 in Shanghai (World Bank 1983, 83). A leading study of spatial patterns of development during the Mao era concluded that the principal achievement during this period was not so much the redrawing of China's economic map as containing the powerful pressures towards regional polarization that usually accompany rapid industrialization and urbanization. Against this standard, preventing widening inequalities stands as a notable accomplishment of the Mao era (Paine 1981).

A second major achievement of the Mao era was the general levelling of personal and household income and consumption differentials. Despite continuing interregional per capita output differentials noted above, personal income differentials across provinces were kept small because of relatively uniform urban pay scales and state control of distribution. Further, the centralized budgetary system limited local expenditure differentials (World Bank 1983). The major source of income inequality flowed from differentials in agricultural output per capita, and these differentials were more sensitive to intraregional rather than interregional productivity differences (Chai 1992). This conclusion is reinforced by the results of a recent study (Tsui 1993) based on 1982 county-level census data, which has challenged the presumption that interregional output differentials are the main source of regional inequality. By decomposing regional inequalities into their components, the study contends that intraprovincial, rural-urban, intraurban and intrarural differences are far more potent determining factors.

Interregional Inequalities in the Post–Mao Era

Deng Era Reforms

Central-regional relations were dramatically transformed during the Deng era with provinces and regions gaining substantial autonomy as a consequence of institutional and policy changes which redefined the relative powers of Centre and region (Cannon 1990). One major change was the formulation of a revised regional development strategy, one far more hospitable to local policy diversity. Abandoning the rigid, Mao era formula of self-reliance and uniform development across regions, Deng era policy emphasized instead local development strategies tailored to local resources. The slogan of the post-1978 period called upon provinces to "build on their strong points and avoid their weak points," in ways that would capitalize on local comparative advantage. This emphasis was embodied in successive Five-Year Plans which also sought to shape a regional division of labour based on locational advantages (Falkenheim 1988).

The 6th Five-Year Plan (1981–85) for example, called for "making the most of the coastal areas," while accelerating the development of energy, communications, raw material, and semi-finished material industries in the inland areas.

These policy emphases were made even more emphatic in Section III of the 7th Five-Year Plan (1986–1990) which called for establishing "correct relations" among the principal regions of China, speeding development in the "East Coast Region," building energy and semi-finished materials industries in the "Central Region" and making active preparation for long-term development of the "Western Region." In drafting the 8th FYP (1991–95), planners were charged with task of further "rationalizing" regional economic relations, addressing three issues: the problem of coast-interior relations; the conflict between national and local planning priorities; and finally, the "East-West" development gap. Under the 8th FYP, coastal provinces and areas were to continue to stress the development of new high-tech industries, particularly in electronics, light industry, textiles, and machine building, supported by continued state investment in transportation, energy and communications infrastructure. Energy-intensive industries requiring inland raw materials were to be gradually relocated to the interior. Inland areas were mandated to foster the development of energy and raw materials industries, as well as farming and livestock breeding. The 8th FYP allowed for some limited development of new industry in the interior, but mainly in the large cities of the region. In addition, special mention was given to the need to transform inland defence industries as key components of local development infrastructure. In the less developed national minority areas, the stress was placed on agriculture, livestock development, and forestry.

A second major change, lending substance to the first, involved a series of administrative decentralization measures which conferred enhanced planning, investment and foreign trade authority on the provinces and regions. Of even greater significance were the fiscal reforms of the early 1980s which adjusted revenue formulas for provincial and regional governments. In addition, overall market reforms allowed provinces to tap a wide and growing range of local revenue sources enormously swelling provincial extra-budgetary funds. The same reforms eroded the fiscal base of the central government, altering the distribution of resources in favour of the localities (Wong 1990; Oksenberg and Tong 1991).

In addition, a number of legal and constitutional reforms were adopted that sought to define and entrench local power. A 1979 statute conferred "legislative power" (*lifaquan*) on provincial-level People's Congresses, an initiative incorporated into the 1982 constitution. While the Standing Committee of the National People's Congress (NPC) was given the right of *ex post facto* review of provincial legislation, provincial legislation could take effect prior to review (Lin 1993).

Finally, a host of regional and zonal experiments were adopted that allowed special economic zones, economic regions, etc., to develop flexible practices on a pilot basis. Some provinces were given the right to develop special local policies and legislation in specific policy areas (Crane 1990).

Regional Growth Trends: Divergence or Convergence?

To many observers, the reforms described above seemed likely to lead, at least initially, to regionally unbalanced growth. The main thrust in regional policy explicitly shifted from equalization to securing the most efficient national deployment of resources and investment. Advocates acknowledged the likelihood that relative disparities would increase as better endowed and more productive regions outstripped their less favoured brethren. This was described not as an abandonment of the long-term goal of balanced development. Rather, it assumed that technology and capital would be diffused from growth centres on the coast and in the large cities, creating linkages that would lead to growth in hinterland economies. These optimistic assumptions were embodied in the so-called "stepladder" theory of regional development espoused by China's mainstream theorists. They have however been subject to attack by development economists who fear a permanent gap opening between the developed and underdeveloped regions of the country. The latter position has been dubbed the "anti-stepladder" doctrine (Yang 1990) and has been embraced by many interior provinces in advancing their claims for funding and resources.

Measuring the impact of these policies and reforms on interregional income disparities remains a surprisingly contentious subject among economists. A number of analysts have concluded that decentralization and the shift in regional development strategy has led to widening economic cleavages. Others have argued to the contrary, that disparities have not widened and some have even contended that the economic gap between rich and poor regions has narrowed.

Fan's 1992 study of provincial income data measured the coefficient of variation in provincial per capita income over the decade 1980–89, concluding that per capita income levels have converged over the decade (Fan 1992a). Tong's analysis of the impact of fiscal reform on interprovincial equality in the provision of social services, using hospital beds per capita and secondary school enrolment as measures, concluded that for the period 1979–1986, "contrary to general expectations, increasing provincial fiscal autonomy has not led to widening regional disparities in public health and education services" (Tong 1989). And Denny's study of provincial economic growth trends through 1988 concluded that "measured by per capita net material product, the economic disparities that had previously separated rich and poor provinces actually narrowed" in the first decade of economic reform (Denny 1991). This last study suggests (see Table 2) by way of summation that growth rates for the middle and poorer provinces outstripped those for the richer provinces, resulting in "an

unambiguous and consistent shift towards greater provincial economic equality during the period."

Other studies (Tsui 1990; Yang 1990, 1991; World Bank 1992) see moderately widening disparities over the decade. Using GVIO (gross value industrial output) as an indicator, Yang's analysis demonstrates that the coastal regions' share in GVIO rose from 59.5 percent in 1983 to 62.2 percent in 1989, while the interior region's share declined from 40.5 percent in 1983 to 37.8 percent in 1989. The World Bank's country study on poverty alleviation in China (World Bank 1992, 13) also concluded that interprovincial income disparities were slightly widening based on population-weighted data for all provinces between 1978 and 1989. Overall, this study concluded that average annual growth in the coastal region was more than 1 percent greater than in the central and western provinces.

Unarguably, rapid growth in some provinces markedly increased their relative shares of national income relative to population size. Fujian's share of national GNP, for example, rose from 1.9 percent in 1978 to 2.6 percent in 1990 (Ohashi 1992). Comparing 1984 and 1991 per capita national income for selected coastal and interior provinces (Table 3), a *China News Analysis* study reveals the differential consequences of unequal growth through the 7th FYP period. Shanghai and Tianjin ranked towards the bottom of the growth spectrum with per capita income increases respectively of 1.80 and 1.88. Guangdong topped the list with per capita income rising over threefold during the same period. Equally notably, however, interior provinces such as Sichuan, Shaanxi, and Henan marginally outperformed coastal provinces such as Jiangsu and Hebei. Overall, however, growth across the thirty provincial units tended to convergence rather than divergence.

Even accepting the arguments and data of the "divergence" school, represented by Yang and others, it is clear that changes in regional policy and regional growth rates have yet to markedly alter the pre-reform provincial distribution of per capita assets. Little statistical evidence exists of serious spatial polarization on a national scale. Clearly, some provinces have substantially benefitted under the reforms and some subregions have grown very rapidly. But per capita income data aggregated either at the provincial level or at the supraregional level (coast, interior and western regions) suggests a high degree of continuity with the past, at least as of the early 1990s.

Intraregional Inequality

The significance of this somewhat reassuring finding is diminished by the clear evidence for growing intraregional inequality during the same period. A recent analysis of trends in county-level income data for twenty-eight provinces between 1985 and 1990 reveals a significant, though nonuniform, increase in the level of overall intraprovincial inequality (Yang 1993). In nineteen of the twenty-eight provinces inequality levels jumped by over 10 percent, although

Table 2
Provincial per Capita NMP in 1977 and Average Annual Growth Rates 1978–88

Province	Per Capita NMP in 1977	Growth Rate 1978–88
Shanghai	1,918	7.95
Beijing	927	9.06
Tainjin	873	7.96
Liaonjing	560	7.96
Heilongjang	437	7.09
Guangdong	297	12.05
Jiangsu	289	12.51
Qinghai	287	8.40
Jilin	284	9.92
Ningxia	273	9.09
Gansu	271	7.64
Hebei	267	8.73
Hubei	261	10.23
Shandong	246	10.46
Xinjiang	239	10.37
Zhejiang	237	14.91
Nei Monggol	237	8.76
Shanxi	226	7.31
Shaanxi	226	7.31
Hunan	219	8.02
Jiangxi	217	8.35
Anhui	198	10.56
Fujian	190	11.23
Guangxi	186	7.55
Henan	184	10.25
Yunnan	168	9.71
Sichuan	166	9.24
Guizhou	127	8.87
National average	290	9.09

in the remaining provinces (Jiangsu, Guangdong, Zhejiang, Shanghai, Liaoning Guangxi and Qinghai) inequality levels either dropped or remained roughly constant. Chai's data on the distribution of rural poverty measured in terms of provincial share of "poor" counties, reveals a striking imbalance, with coastal China accounting for 8.1 percent of poor counties, central China for 42.4 percent and the west with 49.8 percent of below-threshold counties (Chai 92).

Determinants of Regional Growth and Inequality

Introduction

The finding that a decade of reform has barely affected interregional and interprovincial output differentials is surprising, since intuitively, China's pro-growth regional policies and many of post-1978 institutional reforms seem almost inescapably to imply the potential for widening cleavages over time. A number of explanations for this paradoxical outcome seem plausible. The first is that insufficient time has elapsed since the initiation of reforms for their impact to be fully manifest. As a World Bank assessment concluded, China's "industrial geography is being modified quite slowly ... with the pull of comparative advantage on resources still weak" (World Bank 1990, 146).

A second is that a major impact of the reforms has been to skew *subprovincial* growth patterns. Thus, aggregating data at the provincial or supraprovincial level for units that are equivalent in size to countries, masks the reality of local divergence. This view is widely held by many Chinese economists who accept the finding that coastal and inland shares of industrial output have remained roughly unchanged, but contend that the true beneficiaries of reform are the southeast coastal provinces whose relative economic gains are obscured when averaged with the lagging north and northeast coastal provinces and cities (Interview, Tianjin, November 1993).

A fuller explanation of the rough constancy in regional industrial shares requires an understanding of the complex, cross-cutting impact of market and decentralization reforms on provincial economic fortunes. Changing patterns of interprovincial disparities are ultimately the product of differential provincial growth rates over time, measured from a defined baseline. The determinants of local growth however, are complex and defy easy categorization and analysis. In addition to standard locational advantages, inherited infrastructure, and human and physical assets which vary widely across provinces, analysis must also focus on the differential impact of critical institutional and policy factors.

Yang's exploration of sources of regional inequality, for example, highlighted three principal reform era determinants of local cleavages: preferential (pro-coast) central policies, a price structure biased against extractive industries, and a fiscal system disproportionately rewarding the most rapidly growing economies (Yang 1991). Other studies have looked at the impact on growth of (*a*) industrial structure, e.g., the ratio of light industry to heavy industry (World

Table 3
Selected Provincial Income Data

	Year 1984				Year 1991					
	Average Income (Billion yuan)	Percent of per Head (yuan)	Percent of National Total	National Total popu-lation	Increase Income (Billion yuan)	Average over 1984 (times)	Increase per Head (yuan)	Percent of over 1984 (times)	Percent of National Total	National Total Popu-lation
Guangdong	39.738	644	6.64	5.95	129.30	3.25	2,008	3.11	8.43	5.55
Fujian	12.870	480	2.15	2.58	39.09	3.03	1,269	2.64	2.55	2.65
Shandong	47.786	625	7.99	7.38	136.00	2.84	1,586	2.53	8.87	7.39
Zhejiang*	27.670	692	4.62	3.85	72.65	2.73	1,746	2.52	4.74	3.62
Shaanxi	12.171	410	2.03	2.86	34.22	2.81	1,017	2.48	2.23	2.90
Sichuan	40.334	398	6.74	10.46	102.76	2.54	943	2.36	6.70	9.40
Henan	30.616	400	5.12	7.38	82.30	2.68	939	2.34	5.36	7.56
Guangxi*	12.817	336	2.14	3.67	33.59	2.62	788	2.33	2.19	3.73
Hebei	28.201	513	4.71	5.30	69.37	2.45	1,129	2.31	4.52	5.37
Jiangsu*	46.631	755	7.80	6.38	113.83	2.44	1,686	2.23	7.42	5.90
Liaoning	35.415	969	5.92	3.53	85.50	2.41	2,142	2.21	5.57	3.44
Anhui	22.117	433	3.70	4.93	50.50	2.28	876	2.02	3.29	4.97
Tianjin	12.168	1,522	2.03	0.77	26.00	2.13	2,860	1.88	1.69	0.78
Shanghai	34.120	2,833	5.70	1.16	68.70	2.01	5,126	1.80	4.48	1.15
National Total	597.920	572			1,533.00	2.56	1,323	2.31		

Sources: For the year 1984: 1984 and 1985 editions, *Statistical Yearbook of China.*
For the year 1991: reports in the various provincial dailies, except for the provinces marked with an * where figures given are those for 1990 (*People's Daily*, Overseas Edition, January 23, 1992, p. 1).

Bank 1990, 198); (*b*) ownership structure, i.e., the proportion of state-owned industry relative to collective and private industry; and (*c*) differences in efficiency and productivity measured in terms of provincial capital output ratios (World Bank 1990, 190–191). Many other factors could be adduced, including the quality of local leadership (Vogel 1991). Isolating and measuring the contribution of each of these to differential local growth rates is difficult.

A comprehensive analysis of the correlates of provincial growth is beyond the scope of this paper. But it is clear from even a cursory survey of reform era policies that inland provinces were by no means excluded from the indirect benefits of reform.

Growth Determinants

Regional Investment Flows

During the 6th FYP period (1981–85), the twelve provinces of the coastal region received almost half of state investment, 48.7 percent, while the central region received 30 percent and the western region, 17 percent. During the 7th FYP (1986–1990), the share allocated to the coast increased to 52 percent, mainly at the expense of the central region whose share declined by 4 percent. The impact of this investment shift on provincial growth rates was seen as still indeterminate by World Bank analysts in a 1992 report, but they noted that the provinces with the highest growth rates were "those favoured by the coastal strategy and, *more important*, given the greatest latitude in economic reform" (emphasis added) (World Bank 1992a, 87).

Ownership Structure

The most rapidly growing segments of Chinese industry have been those least enmeshed in the state-administered economy, i.e., private and collective factories, township and village enterprises (TVEs) and foreign-invested enterprises (FIEs). The least efficient and slowest growing segments have been in the state-owned sector, dominated by large- and medium-sized heavy industrial plants. Ironically, regions which benefitted from earlier priority status for state fixed investment, now are saddled with aging inefficient plants, while provinces which were starved of investment in the 1950s and 1960s are surging ahead. World Bank estimates suggest that for "every percentage point increase in the share of collective and private enterprises, provinces register and additional 0.16 industrial growth on average" (World Bank 1990, 145). Coastal provinces such as Zhejiang, Jiangsu, Guangdong and Shandong with 50 percent or less of industrial output accounted for by state-owned enterprises (SOEs) have grown more rapidly than western Chinese provinces where the proportion of output of SOEs top 75 percent or more. The same disabilities also affect the slower growing large industrial cities of Shanghai, Beijing and Tianjin where SOEs account for about 70 percent of output.

Price and Market Reform

While China's pre-reform centralized fiscal and planning system brought benefits to interior provinces and cities in the form of subsidies and investment, it also imposed costs on them. One example was the system of discriminatory pricing for primary products which depressed enterprise earnings and local government revenue. The reform era gradual shift away from state-controlled distribution and sales, and the increasing decontrol of prices has given substantially greater leverage to firms located in the interior.

Import Substitution Strategies

Similarly, the Mao era concentration of high value added processing and refining facilities in coastal cities like Shanghai and Tianjin left interior provinces with lower value added extractive industries, limiting profits and local tax revenues. Decentralization has given primary goods-producing provinces the leverage to increase their share of primary and intermediate processing industry. By means of essentially mercantilist practices, interior provinces have succeeded in substantially reducing the coastal region's share of national output of chemical fibers, wool fabric, knitting wool, silk fabrics, sewing machines, bicycles, pig iron and steel. Bicycle figures illustrate the gains with coastal production falling from 93 percent of national output to 75 percent, the central region's share rising from 6 percent to 20 percent, and the western region's share moving from less than 1 percent to 4.6 percent (Yang 1991).

Fiscal Decentralization

Before 1980, revenues, though locally collected, were the preserve of the central government which allocated funds back to the provinces on the basis of an approved expenditure budget. Since 1980, this system has undergone substantial change. After 1980 an initial revenue-sharing arrangement was established with revenues divided into those assigned to the central government, those allocated to the provinces and those shared between the two levels. In 1985 a new schedule of payments was established with provincial obligations set in part on the basis of the preceding year's budget balance. In 1988, a fiscal contract system was adopted which increased the revenue share retained by the localities, with somewhat different arrangements fixed for each province. The overall consequences of tax reform has been fourfold, marked by (*a*) a decline in the ratio of revenue to GNP; (*b*) a decline in central revenue relative to GDP; (*c*) an increase in the local revenue to GNP ration, through the mid-1980s and levelling off thereafter; and (*d*) an increase in the share of revenue retained at local levels (IMF 1993).

The differential consequences of this reform have been quite marked. Revenue collection levels have been significantly unequal, with per capita collections in the leading revenue-generating province, thirty-seven times as great as the lowest. Expenditure controls, however, have limited the ability of the richer provinces to capitalize on their superior fiscal base. The expenditure to collection ratio which captures this redistributive dimension varies from 400 percent in Qinghai to 12 percent in Shanghai. The conclusion of a World Bank report on revenue mobilization (World Bank 1990) was that while the transfer system helps equalize expenditure capacity, "it does not fully equalize expenditures, and there remains a significant disparity in per capita expenditures" (World Bank 1990, 95).

Fiscal Reform and Interregional Transfers

Despite the erosion of central revenues, the national government, as suggested above, retained a significant redistributive capacity through the 1980s, and continued to transfer resources from richer to poorer provinces (Denny 1991; Naughton 1992). The following data (Table 4) on contracted central government fiscal transfers to the poor northwest and southwest provinces over the period 1979–90 suggests that fiscal support for the ten poorer western provinces remained constant in real terms over the decade (World Bank 1992, 18–19).

Multilateral Assistance

Another factor partially redressing the balance in favour of the interior has been the central government's compensatory allocation of multilateral assistance to support projects in the interior. Denny calculated that of 104 World Bank projects (or major project components) approved by 1989, 33 targeted the deep interior provinces and 26 the near inland provinces, accounting for 58 percent of World Bank projects by commitment value (Denny 1991, 204).

Poverty Alleviation

A further compensatory factor has been the clear commitment of the national government to promoting growth in the poorer regions. The 6th Five-Year Plan (1981–85) pledged strengthened "planned industrial construction" in the minority nationality regions, albeit "in accord with local resources," and promised continued support in the "financial, material, and technological realms." To give concrete evidence of this commitment, the plan called for an annual 10 percent increase in the level of subsidies, and a special annual allocation of 500 million yuan for development assistance. Similarly, in addressing the gap between coastal and western China, the 8th Five-Year Plan (1991–95) emphasized the objective of "common prosperity" and proposed a number of preferential policies calling for accelerated investment in education and the extension of preferential trade policies to the interior. Special provisions were made for designated poor areas, where income levels fall below national poverty line standards. The stress in these provisions was on a variety of welfare and work-relief programs, supplemented by low-interest development loans and popularization of yield-increasing agricultural and forestry management techniques.

Table 4
Contracted Central Transfers to Provincial Governments
(current Y billion)

	1979	1985	1990
Northwest			
Inner Mongolia	1.06	1.78	2.16
Shaanxi	N/A	N/A	0.12
Ningxia	0.27	0.49	0.60
Gansu	N/A	N/A	0.13
Qinghai	0.37	0.61	0.74
Xinjiang	0.81	1.45	1.75
Subtotal	2.51	4.33	5.50
Southwest			
Guangxi	0.27	0.72	0.87
Guizhou	0.48	0.74	0.90
Yunnan	0.30	0.64	0.77
Tibet	0.45	0.75	0.91
Subtotal	1.50	2.85	3.45
Total	4.01	7.18	8.95

Impact of the Open Door: Investment and Exports

One assumption of observers was that the open coastal policy would enlarge the coast-interior gap. Unquestionably it has tended to have this effect, but the impact has been less dramatic than expected. To be sure, foreign direct investment was overwhelmingly concentrated in the coastal region during the first decade (1979–89), with Beijing, Tianjin, Shanghai, Guangdong and Fujian accounting for 71.1 percent of all foreign investment commitments, and the remaining coastal provinces for 16.6 percent of the total. Only 12.2 percent of committed foreign investment went to the remaining 18 inland provinces during this period (Denny 1991). This pattern persisted in 1990 and 1991, with the inland provinces accounting for 11–12 percent of total utilized foreign investment (*China Statistical Yearbook 1992*, 590).

However, if FDI is factored out of total utilized investment, and only foreign loans (37.45 percent of total) are considered, inland provinces accounted

for about 20 percent of the regional total (Table 5). And a large but unknown portion of the U.S. $4.5 billion in foreign loans utilized in 1990 and 1991 by China's ministries was almost certainly allocated to interior infrastructure projects (*China Statistical Yearbook 1992*, 591).

Export patterns reveal a similar pattern of coastal dominance. The eighteen inland provinces only accounted for 20 percent of total national exports in 1990 (Womack and Zhao 1993), with exports averaging 3–4 percent of total provincial output value for the interior provinces, well below the national average. But, even this modest share of exports represented a net gain for the interior, since under the pre-reform trading system, central trading companies and coastal entrepôt cities completely monopolized benefits from trade. The new access to foreign exchange earnings and foreign markets thus modestly balances the equation. Over time however, the dominance of coastal provinces in exports seems likely to continue, reflecting long-term advantages both in regard to transportation and the growing importance of exports from township and village enterprises, which now account for about a quarter of total exports and whose role is far more pronounced in the coastal regions (Zweig 91). However, the opening of interior ports in 1992, and the promotion of border trade seems likely to lead to some balancing out of benefits from trade.

The spatial diffusion of trade benefits seems to have increased slightly during the 7th FYP (1985–90) period. The most carefully constructed study of the regional effects of foreign trade available (Fan 1992b), documents a clear shift in regional benefits from trade from coast to interior between 1984 and 1989. While in 1984 the effects of foreign trade were largely favourable to the most highly developed regions in China including the northeastern provinces, the three centrally administered cities and the Yangtze delta provinces of Jiangsu and Zhejiang, by 1989 those regions registering a "favourable" impact from foreign trade included all provinces along the coast plus adjacent provinces. Fan's conclusion is that spatial variations "tend to be smaller in 1989, suggesting that the benefits of foreign trade may have reached beyond the core."

In addition, recent trends indicate a shift in investor interest to the interior, encouraged by lower labour costs, local subsidies, and the central government's current efforts to encourage foreign investment in the interior provincial capitals and border areas. The opening of border trade in 1988–90, the designation of border cities and interior provincial capitals as "open cities" in 1992, and the new policy in 1992 of "all around opening" (*quan fangwei kai fang*), has stimulated the geographic dispersion of export and investment growth.

Womack and Zhao's analysis of provincial direction-of-trade data explains the resulting pattern of "diversification" as the result of each province's distinct pattern of internationalization, reflected in a distinctive set of transnational economic relationships based on localized market affinities. In fact, the regionalization of China's foreign economic relations has been explicitly embraced by Chinese economists and policymakers as maximizing trade and investment

Table 5
Foreign Capital Actually Used by Region (U.S. $1,000,000)

	1990				1991			
	Total	Foreign Loans	Direct Foreign Investments	Other Foreign Investments	Total	Foreign Loans	Direct Foreign Investments	Other Foreign Investments
Beijing	392.02	113.07	276.95	2.00	299.60	54.65	244.82	0.13
Tianjin	98.56	61.63	34.93	2.00	260.89	128.28	132.16	0.45
Hebei	97.80	53.33	39.35	5.12	96.28	39.72	44.37	12.19
Shanxi	7.77	4.37	3.40		30.76	26.96	3.80	
Inner Mongolia	10.64		10.64		2.42	0.76	1.10	0.56
Liaoning	727.39	470.08	243.73	13.58	645.18	282.79	348.88	13.51
Jilin	30.85	13.25	17.60		54.49	22.85	18.00	13.64
Heilongjiang	46.95	18.59	24.49	3.87	29.53	8.68	9.43	11.42
Shanghai	321.04	147.03	174.01		330.25	185.06	145.19	
Jiangsu	247.69	113.72	124.16	9.81	314.71	95.49	212.32	6.90
Zhejiang	127.77	78.63	48.43	0.71	143.81	51.52	91.62	0.67
Anhui	42.28	28.74	9.61	3.93	25.12	14.45	9.54	1.13
Fujian	426.84	106.95	290.02	29.87	570.49	99.33	466.29	4.87
Jiangxi	35.87	28.36	6.21	1.30	50.65	31.16	19.49	
Shandong	230.45	44.75	150.84	34.86	373.08	156.69	179.50	36.89
Henan	34.12	22.76	10.49	0.87	75.44	37.45	37.91	0.08
Hubei	93.91	62.15	29.00	2.76	141.14	94.50	46.43	0.21
Hunan	140.29	126.14	11.16	2.99	102.74	77.31	22.76	2.67
Guangdong	2015.41	433.10	1460.00	122.31	2583.75	640.87	1822.86	120.02
Guangxi	62.60	26.97	28.66	6.97	86.54	54.69	25.32	6.53
Hainan	116.98	13.96	103.02		212.44	35.72	176.16	0.56
Sichuan	63.18	38.81	16.04	8.33	154.39	73.48	24.39	56.52
Guizhou	11.10	0.52	4.68	5.90	16.34	2.25	7.34	6.75
Yunnan	12.16	4.78	2.61	4.77	21.37	17.86	2.96	0.55
Tibet								
Shaanxi	73.64	26.38	41.91	5.40	35.74	3.98	31.59	0.17
Gansu	1.24		0.85	0.39	4.78		0.93	3.85
Ningxia	0.25		0.25		3.03	2.85	0.18	
Xinjiang	24.98	19.61	5.37		74.20	73.98	0.22	

opportunities. As one study put it, "Correctly choosing partners for external economic cooperation for China's coastal provinces will allow the comparative advantages of both sides to be used to the fullest" (Zou and Ma 1989). In concrete terms, the authors suggest that Fujian-Taiwan links, Guangdong-Hong Kong ties, Hainan-ASEAN trade, the Yangtse region and Japan, and Liaoning-Shandong-Korea ties be strengthened systematically. Similar attention has been paid to the regional development potential of cross-border trade, particularly by researchers attached to west China provincial institutes (Yang 1992).

The emergence of a "greater China" region in the south (Harding 1992), the crystallization of a Bohai Rim region in the north with growth fuelled by South Korea-Shandong links and Japan-Liaoning ties (Yao 1993), and the emergence of cross-border trade zones in the Northeast, Southwest and North-west (Christofferson 1993; Ferdinand 1993) all reflect what appears to be a market-driven process of "subregionalization."

Explaining and Predicting Growth

Specifying how these growth determinants interact to shape provincial economic performance is exceedingly difficult. A 1993 International Monetary Fund study of the Chinese economy conducted a multivariate analysis of provincial growth by measuring the correlation between twenty-eight variables including the degree of openness to international trade, level of foreign capital utilization, share of state ownership in production, level of tax remittances to the Centre, etc., and the main dependent variable, real annual average growth in per capita industrial output between 1981–90. Many of the hypothesized relationships, similar to those suggested above, were supported by the results of regression analysis (IMF 1993, 82–84).

Another useful way to gain perspective on the relative contribution of key factors to provincial growth is to compare the economic performance of selected provinces, controlling for key variables. The IMF study cited above also explored the impact of revenue sharing rates on growth by contrasting Zhejiang, with an unfavourable revenue-sharing regime, and Guangdong, with a highly favourable one. Their calculations suggested that under Zhejiang's tax regime, Guangdong's growth would have been reduced by 0.59 percentage points. The same study calculated that export expansion was the primary source of Guangdong's superior growth record, accounting for 80 percent of Guangdong's 3 percent margin of economic growth over the national average.

Lardy's more detailed analysis of Guandong's trade performance in relation to traditional export leaders such as Liaoning and Shanghai sheds additional light on this issue. Guangdong tripled its exports between 1985 and 1990 to surpass Liaoning and Shanghai as China's leading exporter. One factor cited by Lardy was the fiscal advantages of Guangdong in comparison to Shanghai which was handicapped by a still punitive remission rate. Another explanation of

Shanghai's relative decline was the opening of other international trade ports and the consequent decline of Shanghai's entrepôt role. But even considering only locally produced exports, Shanghai's performance lagged seriously behind Guangdong's. Locational advantage explains some but not all of Guangdong's trade success. Lardy estimates that the growth of foreign investment in export processing in the 1980s made a substantial contribution to Guangdong's export surge, but calculates that by itself, this component of exports would have boosted Guangdong only to the position of "second tier exporter" (Lardy 1992, 127). The more potent explanation in his view lies in the province's industrial structure which was more congruent with China's basic comparative advantage in labour-intensive light industry, and its greater flexibility in terms of the smaller size of its firms and their relative efficiency. In addition, Guangdong was less handicapped than Shanghai by the increasing regional fragmentation of the economy, since unlike Shanghai which lost its traditional guaranteed sources of raw material in the 1980s, Guangdong had internal sources of supply from its own hinterland.

The foregoing analysis suggests the complex interaction of domestic and international factors in provincial growth, and makes clear the hazards of predicting future performance. Based on current trends however, it seems safe to estimate that overall interprovincial disparities will modestly widen over the next decade with coastal provinces the likely beneficiaries. Growing interprovincial differentials may in turn intensify intraregional inequalities. Rapid growth surges in the more internationalized of the provincial economies also seem likely.

Remedying Regional Inequalities

Elements of Policy Consensus

Given the lack of certainty regarding the magnitude and determinants of regional inequality, and given the range of competing interests involved, it comes as no surprise that agreed remedies are lacking. But if analysis and debate continues in Chinese think tanks and universities, at a policy level it seems clear that a working compromise on regional issues has been achieved. Four elements are central to the policies currently in place.

Staying the Course with "Diffusion" Models of Growth

Most Chinese economists and policymakers, including those from disadvantaged regions, accept that overcoming longstanding regional per capita output differentials will still require many decades. In the interim, the consensus appears to be that provinces should be free to set their own strategies and growth targets, within the macroeconomic parameters set by the national government, even at the cost of spatial divergence. Deng Xiaoping's 1992 injunction to Guangdong to accelerate growth to catch up with the NIEs signalled a broader unleashing of provincial ambitions as part of a fast-growth national policy.

This appears premised on the view that rapid national growth would be ill-served by equalization policies that hampered provincial ambitions. Belief in growth poles and diffusion effects still underlie policy. The development of Shanghai and Pudong are good examples of this continued commitment, and equal evidence of an intracoastal shift from South to East China.

Continued Compensatory Fiscal Transfers

Containing excessive polarization remains a critical objective on both equity and political grounds, and is embodied in four policy emphases. The first element stresses the need for continued fiscal transfers to poorer provinces, funded out of rich provincial surpluses or central funds. The second is a more aggressive mobilization of long-term project funding to overcome infrastructure constraints in the interior. The decision in 1993 to create a long-term development bank underlines the central government's commitment in this area.

Level Playing Field

The third element, which represents a shift from the early reform period, is acceptance of the need for a level playing field in policy terms for all provinces and an end to coastal preferences in fiscal and foreign currency retention formulae. The 8th FYP (1991–95) did in fact shift from a regional to a sectoral development focus, and a variety of budgetary clawback measures aimed at Guangdong, the end of special economic zone preferences in foreign currency retention, and the introduction of "all around opening" measures in foreign trade signalled the end of a one-sided pro-coast policy.

Focus on Poverty Alleviation

The fourth component of policy addresses the serious problem of intraprovincial inequalities through an income equalization strategy that focusses on poverty alleviation at the subregional or county level and below. One example is the Sanxi regional development program tackling entrenched rural poverty in adjacent areas of Gansu and Ningxia. A second is the national "poor county" program (World Bank 1992, 116–17). Provincial governments also have a recognized role in counteracting intraprovincial inequalities. Guangdong, Zhejiang and Jiangsu, provinces which have successfully reduced intraprovincial disparities, have developed provincial aid programs which appear to have played a key role. Jiangsu has tackled its own North-South (Subei-Sunan) gap through infrastructure programs, low-interest loans and cooperative programs. Guangdong's efforts to assist its mountainous counties have involved budgetary transfers, tax relief, and population resettlement programs (Yang 1993). Other provinces such as Fujian have been less successful at combining rapid growth with intraregional balance, despite heavy social overhead investment in the poorer counties (Lyons 1992). Defining the poverty fighting role of provincial and local governments remains at present a topic of active research and debate.

Facilitating Diffusion

To suggest that a policy compromise underlies regional development policies in the 1990s does not imply an absence of conflict. Provinces remain pitted against one another in competition for scarce national infrastructure support, and for foreign investment. Provinces are locked in vigorous contention with the central government over concrete growth targets, fiscal transfer levels, project approvals, etc. And provincial competitive strategies involve frequent resort to protectionist measures to shield local companies and preserve local tax bases.

It is this economic fragmentation that presents the most difficult challenges to advocates of regional diffusion models of growth. The issue in simplest terms is how to facilitate the natural shifts in labour and capital on which Chinese growth pole policies are premised. Chinese economists believe that the creation of a unified national market is critical to healthy regional growth and to the long-term objective of regional balance. This view is shared by World Bank analysts who have emphasized the importance of dismantling administrative and other barriers to interprovincial exchange (World Bank 1990).

Interim steps in this direction include promotion of "horizontal economic links" between provinces, and interregional planning to liberalize trade on a supraprovincial basis. In 1992, the State Council designated seven zones, within which "organic integration" was to take place (Zou 1992). Few of these initiatives have yet borne fruit, since in the decentralized economic environment of the 1990s, interprovincial competition continues to hamper market integration measures. Other recommended measures include strengthening the transportation infrastructure to facilitate interregional trade; developing more adequate channels of distribution, storage, warehousing, etc., again to reinforce long-distance commercial links, etc.

The Political Dimension: Eroding Central Power?

Given regional economic fragmentation and competition, strong central leadership is essential to creating the foundations for an integrated national market and for consensually resolving interprovincial differences and Centre-province differences. It is in this light that concerns have arisen over potential erosion of central control over the provinces in the reform era. The fragmenting impact of economic devolution since 1978 has generated anxious speculation over the possibility of political balkanization as well as over the negative developmental consequences of declining central leadership capabilities.

A review of central-local interactions over the past decade tends to dispel some of the more apocalyptic journalistic projections. There is no compelling evidence of a serious erosion of central will or resources in dealing with economic localism. When challenged, the Centre has proved able to recentralize authority over trade, investment and growth targets, though its instruments of intervention have often been crude and dysfunctional (Naughton 1992).

Where local legislation has conflicted with national policy, provinces have voluntarily annulled their legislation to bring local ordinances in line. And when local initiatives have threatened central programs, as in the case of the proliferation of local stock exchanges or local development zones, localities have been compelled to disavow these programs. More generally, negotiated solutions involve mutual accommodation, as in the case of Guangdong's agreement to raise its remittance rates to the Centre in 1988 to placate resentful fraternal provinces. This pattern dubbed by one scholar, "reciprocal accountability," is marked by negotiated compromise (Shirk 1993).

Central authorities tend to approach the regions in a more consultative and less interventionist way than in the past. Errant local governments may be criticized for such sins as "local protectionism" but not for the political deviation of "localism." Central pressure has tended to take the form of persuasion, with Beijing invoking such slogans as the "entire country as a chessboard," to urge interregional cooperation. Tellingly, the Centre has relinquished direct control over most provincial personnel decisions with the exception of the most senior leaders. This has allowed a greater degree of "localization" of provincial and regional leadership groups, providing evidence of a greater degree of security on the part of the Centre (Burns 1987; Ting 1989).

Central authorities appear far more responsive to local pressures, when they are seen as legitimate. One example illustrates this point—the steady enlargement of China's "open" areas eligible for preferential policies. Years of vocal complaints by China's interior provinces were met with success in 1992 with the conferring of "open" status on selected border cities and interior provincial capitals. Another example has been Beijing's willingness to allow the revenue-sharing formulas established in consultation with the provinces during the 6th and 7th FYPs to stand through the period of 8th FYP (1991–95), retracting its own announced preferences for revision. While some observers contend that the Centre was compelled to back down, a more plausible interpretation sees the Centre as agreeing to suspend an unwise and unacceptable unilateral demarche. Negotiations over budgetary and tax reform in 1993 appear to have led to a compromise solution with the central government's share of revenue modestly increased while leaving substantial local fiscal autonomy.

This analysis suggests an optimistic prognosis for central-provincial relations and for a consensual resolution of competing regional claims.

Conclusion and Implications

It seems clear from the foregoing review of regional income distribution and growth trends as well as current policy debates, that regional equity issues will remain high on China's leadership agenda over the next decade. But the complexity of the issue, and its multifaceted links to virtually every dimension of economic reform, mean that for foreign aid agencies, defining an optimal regional approach in terms of aid programming will be very difficult.

Is one necessary? Suppose a regional-equity "impact statement" were to be required for all current CIDA projects. Very few would be seen as failing to yield beneficial consequences in terms of either interregional or intraregional balance targets. For example, current Canadian efforts to assist China to improve domestic transportation planning will assuredly contribute to increased interregional trade flows, thus facilitating market integration. Efforts to assist with fiscal reform similarly will strengthen both local revenue mobilization, central fiscal capacity and national macroeconomic coordination, all factors linked to regional balance. Market infrastructure projects including grain handling and storage, futures market management training, etc., all should facilitate economic integration and by extension regional growth. In addition, region-specific programs such as livestock breeding programs will tend to benefit poorer regions where animal husbandry is a key contributor to the local economy. Even programs that support economic development in the coastal cities can be justified in terms of growth pole strategies. It follows that regional equity issues become almost moot in project selection, since promoting any form of economic development can in the long run be rationalized in terms of regional equity goals.

Should regional balance goals be elevated in importance among project assessment criteria, and placed on a par for example with gender and environmental criteria? My judgement is that they should not, on the grounds that unlike gender and environment policies, the Chinese leadership has been relatively successful in developing policies and instruments that achieve their goals, in this instance, balancing the competing requirements of national and local development.

If regional equity concerns were however to assume a higher profile in a future CIDA country framework, several broad directions might be considered. One might be to increase the proportion of assistance funding going directly to poverty alleviation programs, which could target poorer areas. The short-term impact would clearly be greater than current projects. A second option might be to focus assistance on strengthening the quality and capacity of China's regional planning process. This is an area of substantial Chinese need and one that is congruent with Canadian skills and experience. Although, it should be noted that Canadian experience with regional development programs offers the Chinese little basis for optimism. In terms of broad regional strategy, Canadian aid programming could focus on clearing away impediments to diffusion of growth, an orientation that might focus on a wide range both of hard infrastructure projects as well as soft infrastructure projects boosting the creation of market institutions as well.

Regional balance remains a strong concern of China's central government, which is equally committed to developing the institutions and instruments to balance its macroeconomic targets with its equity goals. Ample room exists for cooperation with the Chinese in this effort.

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