

University of Toronto – York University  
Joint Centre for Asia Pacific Studies



**China's Second Wave  
of Development:  
The Yangtze River Region**

B. Michael Frolic

Eastern Asia Policy Papers



## Series Preface

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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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

September 1994

## About the Author

**B. Michael Frolic** is a professor of political science, York University. He is currently completing a book on Canada-China relations from 1970 to the present. His other research interests include a study of Soviet-Chinese relations since 1949, and a study of Canadian-American-Chinese relations. His major publications include *Mao's People*, and *Reluctant Adversaries: Canada and the PRC, 1949-1970* (with Paul Evans).

## Contents

Executive Summary	1
Introduction	3
I. The "Second Wave" of Development and Reform	5
II. Shanghai: Restoring the Glory	9
III. The Power of the Yangtze Delta	12
IV. Tracking the Dragon Upriver	17
V. Macroeconomic and Political Factors: Six Questions	20
1. What Will Happen After the Death of Deng Xiaoping?	20
2. Will Regionalism Destabilize China?	21
3. Is China's Current Economic Growth Sustainable?	22
4. What Is the State's Role in Development and Reform?	23
5. What Is the Foreign Community's Role?	24
6. What about Ideology and Culture?	25
Conclusion	26
Notes	26

## List of Maps

Map 1: China's Seven Economic Regions, 1992	7
Map 2: Sketch of the Yangtze River Valley	17

## **Executive Summary**

The opening of southern China and the establishment of a Greater China network, which includes Hong Kong and Taiwan, was accompanied by a coastal development strategy. This "first wave of development and reform" increased productivity, decentralized the economy, brought in foreign investment, and greatly expanded China's trade. Now, in the nineties, the task is to move economic development and reform northwards and inland into China's heartland.

The focus for this "second wave" is the Yangtze River. Over 6000 km long, it passes through nine provinces with a population of 400 000 000. Likened to a dragon, its "head" lies in the rich Yangtze Delta area dominated by Shanghai. Central authorities have made the Yangtze a development target, first by initiating an expansion of the city of Shanghai at Pudong, and second, by approving the controversial Three Gorges Project upstream. Shanghai and the Yangtze Delta are China's next "growth pole," rivalling and surpassing the Pearl Delta area.

Shanghai is reclaiming its pre-1949 position as China's first city. Thirty percent of China's exports move out of Shanghai's port. The city serves as the catalyst and funnel for economic growth along the Yangtze River. The Delta is China's most industrially and agriculturally developed area. It includes Shanghai, seven cities in Jiangsu Province, and six cities in Zhejiang Province. Per capita GNP is twice the national average, with Jiangsu ranking first in China in gross industrial and agricultural output. In the past twelve years Zhejiang's growth ranked second in the country.

The Yangtze is China's leading navigation system. Its drainage areas hold 40 percent of the country's total hydroelectric power reserves, including the massive Three Gorges Project. It produces over 40 percent of the nation's total industrial and agricultural output. In the nineties, central authorities have allocated substantial investment for transportation and energy projects. Several industrial zones have been established, along with twenty-eight "open ports." While much attention has been focused on developing a Yangtze "region," headed by Shanghai and extending upriver all the way to Chongqing, realistically, it is too large to function as an integrated region beyond its delta.

The paper evaluates this "second wave" of development from six macroeconomic and political perspectives. In China in the nineties, political stability and continued economic growth are more likely than instability and crisis. The state will play a key role in planning and investment, in partnership with a growing market economy and international trade. Foreign technology and capital will be critical for expansions of the Yangtze economy. The paper concludes on a note of "cautious optimism" that substantial growth will take place in the nineties, with

## Introduction

Much has been said about China's economic growth in the past decade. It is an explosion that calls to mind the rapid rise of Japan in the thirty year period from 1950–80. No other large economy has rivalled the Japanese "miracle" until now, when we are witnessing the equally astonishing transformation of China into one of the world's most powerful economies. Current assessments rank China the number three economy in the world. In less than twenty years, given present projections, China will, in terms of total industrial and agricultural output, have the world's largest economy.<sup>1</sup>

The magnitude, depth and rapidity of this transformation is startling. We did not expect that this backward, peasant society could move so strongly and quickly into the modern world economy. We had doubts that a Marxist-Leninist command system could introduce marketization. We thought that the sudden disintegration of the U.S.S.R. proved that plan and market could not coexist in one economy. China, like other socialist systems seeking to reform, similarly could not escape from the suffocating embrace of the state. Some private "precious flowers" of entrepreneurship might be allowed to blossom, and perhaps a bit of space could be set aside for political change, but there would be no real harvest of long-term economic growth within the confines of the Chinese socialist state.

As has happened so frequently in the past, China once again has confounded all of us. In the fifteen years since Deng Xiaoping moved to "open" China and promote its modernization, the economy has grown an average of 9 percent per year, at a rate that doubles in size every ten years, utilizing market principles without formally abandoning the socialist state structure. It is true that productivity of state-owned enterprises has declined and only a third of China's total industrial and agricultural output today comes from the state sector. It is the nonstate sector that visibly powers China's economic surge. New entrepreneurs in town and country are mixing together with businesspeople from Hong Kong and the rest of the outside world. Yet, despite the declining role of state-owned enterprises, the instruments of the Chinese state continue to exert a powerful influence. The country remains committed in theory to "socialist marketization"—a combination of plan and market, wherein the dynamism of the latter is focused and directed by central (and local) state structures.

In reminding ourselves that the state and planning continue to play a key role in the present emergence of China as a world economic power, we can better understand and evaluate the future path of China's development. While our attention has been focused on the apparently uncontrollable sweep of marketization and decentralization, we should keep in mind that there are blueprints for all this. The "Chinese model" has been guided and nurtured by Beijing, not in the "taut" manner of the past but planned and controlled nevertheless. Com-

way to pragmatism. Policies that do not work are discarded, and those that succeed are proclaimed to be ideologically acceptable. Sometimes society outruns the state: decollectivization was first initiated in Anhui and then appropriated as a state policy; the enormously successful township and village enterprises were secretly set up in parts of Jiangsu before they were put forward as state policy.

But there was a blueprint and it began with the need to modernize and to do it within the global economy. The reformers jumped on the bandwagon of rural decollectivization which provided them with the support of the vast majority of its citizens. Opening up to foreigners in the coastal areas and the four (now five) special economic zones was a gamble for a state and people that had had bitter luck with foreigners in the past. Linking Hong Kong with Southern China and the creation of a Greater China economic network, including Taiwan, may have been a risk, but the results were spectacular.

Once the policy of "one country two systems" was established, Hong Kong emerged as the catalyst for southern China's tremendous growth. In 1991, the over 90 million people living in the two southern provinces of Guangdong and Fujian (8.4 percent of China's population), had a per capita income 25 percent higher than the national average. In 1992, Guangdong's GDP was 68 percent higher. And now, the city of Shenzhen, a small town only a decade ago, has the largest per capita income of any Chinese city, more than three times that of Shanghai. In the eighties, the Pearl River Delta became China's main "growth pole," the centre of southern China's booming economy. One-third of Guangdong workers come from other provinces and one-third of Guangdong's goods are sold on the international market. In terms of export production, Guangdong leads all of China. Economic growth in Greater China (Guangdong, Fujian, Hong Kong and Taiwan) has been so profound that this area has been called Asia's "Fifth Tiger."<sup>2</sup>

The opening of southern China and the establishment of a Greater China network has been accompanied by a coastal development strategy which encourages marketization, foreign investment and trade. China has eleven coastal provinces located in an arc along the South China Sea, East China Sea and Yellow Sea from west of Hong Kong to Liaoning.<sup>3</sup> Traditionally these have been the most economically productive areas of China. They have also been the main points of foreign penetration. Here is where British gunboats forced the Chinese to open their cities (the treaty ports) to foreign trade in the nineteenth century. Nearly 50 percent of China's population lives in the coastal provinces. The economic growth of Jiangsu, Zhejiang and Shandong has been impressive. In 1991, Jiangsu's industrial production increased by 15 percent; Shandong's by 14 percent; and Zhejiang's by 24 percent. In 1993, these three provinces had growth rates that averaged over 20 percent, well above China's average. The main cities in the coastal provinces (Shanghai, Wenzhou, Suzhou, Ningbo, Tianjin, Yantai) have economic growth rates

The first decade of southern/coastal development has been remarkably successful as a short-term strategy for promoting economic growth, marketizing the economy, and bringing in foreign expertise, capital and trade. It was possible to loosen the grip of the state and let in outsiders. Decentralization, mobility of capital and labour, price reform, enterprise cost accounting—all these reforms worked to promote rapid growth. This was both a reform and a development strategy.<sup>5</sup> From a developmental perspective it concentrated on an area that historically was productive and had strong linkages with the outside world. It encouraged foreign investment and the development of consumer-based and light industrial growth. The southern area was close to Hong Kong (and subsequently Taiwan), which could provide capital and entrepreneurial direction, but far enough from Beijing that its special privileges and the presence of foreigners would not "contaminate" inland and central China. The four SEZ's and the coastal areas served as developmental nodes that could be the vanguard of later economic growth in their large hinterlands.

As a reform strategy, southern/coastal development was a litmus test of market reform policies. Would decentralization work? Was it possible to let in foreigners and still maintain control of the economy and of the political system? How would the new economic structures and processes be affected by factional political struggles in Beijing? Could the old socialist state adapt to the new ways of doing business? Was it possible for market and plan to coexist? After ten years of reform, the answers to most of these questions was: "Yes, in the south and on the coast we have been able to succeed. Based on what has happened there, in this first stage of China's reform, we can extend the southern/coastal strategy northwards and inland." This is indeed what is now happening in China in the 1990s. The "first wave" of development/reform is over, and China has now embarked on a "second wave," a developmental and reform strategy that builds on the success of the south and the coast—a strategy that is reformist and state-led, even more challenging and innovative than its predecessor.

### **The "Second Wave" of Development and Reform**

Southern and coastal development was a short-term prelude to the real task at hand: the modernization of the huge interior areas of China. How to move the reform into these areas? Where to begin? If you look at a map of China, there is one major geographical entry point into the interior: the Yangtze River (Changjiang). China's heartland and its most concentrated population lives along and under the influence of this river valley. The Yangtze is the third longest river in the world and has been likened to a "giant dragon, lying across China's heartland." The dragon's head is Shanghai, one of the world's great cities, and the tip of its tail is Chongqing, one of the world's largest, some 6000 km inland. According to the Chinese, "Possessing a similar link to those between the Nile

the Yangtze River has nurtured China."<sup>6</sup> The Yangtze Valley comprises nine provinces with a combined population of over 400 million—more than three times that of southern China. The gross industrial and agricultural output value of the area is over 40 percent of China's total. Current growth rates in the Yangtze River Delta, which includes Shanghai, Jiangsu and Zhejiang provinces, are among the highest in China, rivalling those of the Pearl River Delta, the centre of south China's economic boom.

Two decisions have contributed to the large-scale development and opening up of the Yangtze region in the nineties. The first was the decision in April 1990 to make Pudong, which is located next to Shanghai, a major development target. In March 1992, Li Peng announced that Pudong would be the focal point of China's reform for the next decade. According to Shanghai's mayor, Pudong, until recently only a swampy area located to the east of the city, is "the dragon's head that will pull the body of the Yangtze River Valley forward."<sup>7</sup> Pudong, which is 168 square km larger than Shanghai, will, in the expectations of Chinese planners and officials, be the economic motor that restores Shanghai's lustre as a world-class industrial and financial centre. According to *Wen huibao*, "Building Shanghai into a great internationalized metropolis is often called, 'restoring its awe-inspiring air' ... Shanghai faces the Pacific Ocean and has intercourse with the world; with its back to the Changjiang Delta, it is the most economically and culturally developed city in China."<sup>8</sup>

Second, after much debate (by Chinese standards) and considerable international reaction, in April 1992 the Chinese government approved the construction of the Three Gorges Project on the middle reaches of the Yangtze River. The project will take fifteen years to complete and is designed to increase China's power output by 12 percent. It will supply sorely needed energy for the Yangtze region. It is designed to eliminate flooding and to improve the river's shipping capacity. The enormous cost of this project, calculated at 57 billion yuan, will require tremendous domestic and foreign investment. The central government's determination to carry out the project in the face of international criticism over the potentially dangerous consequences of such a massive restructuring of the environment, is a signal to investors that China intends to proceed both with the project and with the development of the Yangtze region. Commenting upon this "momentous" decision, *Renmin ribao* observed that the project, "is a cherished dream of several generations," beginning with Sun Yatsen and including both Mao and Zhou Enlai." In 1953 Mao composed this poem in support of the dam:

A stone wall in the western Yangtze  
Cuts off the turbulence of Wushan mountain  
Forming a placid lake among proud gorges  
The Goddess can rest at ease  
When such distinction appears in the world.<sup>9</sup>

The commitment to make Pudong a focal point of development and to go ahead with the Three Gorges Project has been accompanied by several other policies emphasising the importance of the Yangtze region. In mid 1992, Vice-Premier Zou Jiahua unveiled a new regional economic strategy for the nineties. He observed that, "Development of regional economies is a major international trend ... The idea of regional economy which is stressed today, is to integrate the geographical superiority of the eastern open areas with the resource advantages and economic and technical foundations of the central and western parts of the country... to map out economic plans for a huge region on a much larger scope...." The new plans for China's regional economy call for the establishment of seven regions, which will "integrate national and regional goals." The first of these seven regions is "the area along the Yangtze River, with the Pudong New Area in Shanghai playing the leading role."<sup>10</sup>

The other six regions include: the Pearl River Delta; the land encircling the Bohai Sea, including Beijing, Tianjin, and Hebei, Shandong and Liaoning Provinces; select provinces in the southwest and southeast; northwest China; central China; northeast China (see Map 1). These seven regions, according to Zou, will form the new structure of China's economic development and reform throughout the 1990s. While the Yangtze is identified as a separate region located mainly in its delta area, in fact the valley cuts through two other regions: central China and the southwest, with a population of 250 million. Thus, the Yangtze is seen both as a separate economic region, and as a "dragon" that links three of these regions together, from head to tail.<sup>11</sup>

Map 1: China's Seven Economic Regions, 1992  
(adapted from *Beijing Review*, August 3-9, 1992)



In May and June of 1992 the government announced it would "open" twenty-eight cities and eight prefectures in the Yangtze Valley to the outside world. In 1990, for the first time in forty years, foreign ships had been permitted to dock at such ports as Wuhan (Hubei); Chongqing (Sichuan); Yueyang (Hunan); Jiujang (Jiangxi); Zhangjiagang, Zhenjiang and Nanjing (all in Jiangsu); and Wuhu (Anhui).

Now in 1992, major cities along the river were given the same preferential policies as the coastal open cities. These twenty-eight cities and eight prefectures contain 3.4 percent of China's total land area, and approximately 15 percent of its population (over 150 million). Chongqing with a population of 14 million is poised to take advantage of the opening up of the Yangtze to trade and the construction of the Three Gorges Dam. The city's mayor claimed, "We had originally planned to double our income by the end of the century. Now we plan to go faster. We think we can fulfill targets set in the Eighth Five Year Plan one or two years ahead of schedule."<sup>12</sup> Further downstream, Wuhan, the largest and oldest industrial and commercial centre in inland China, and "the gateway to nine provinces," is eager to resume this role. Foreign investment in Wuhan has mushroomed: in 1992 it rose 700 percent over the previous year. In the Yangtze Delta, the three Jiangsu cities continue to have booming economies, in a province that now has the highest per capita GNP in China. Further upriver, Wuhu, Yueyang and Jiujang have been designated as key points for the less developed provinces of Anhui, Hunan and Jiangxi, respectively, and now serve as nodal points for economic development.<sup>13</sup>

In 1990 the government approved the establishment of the Waigaoqiao Free Trade Zone in Shanghai. This was followed by the formation in 1991 and 1992 of twelve other free trade zones (in Tianjin, Shenzhen, Dalian, Guangzhou, Zhangjiagang, Xiamen, Haikou, Qingdao, Ningbo, Fuzhou and Shantou). These free trade zones have many of the features of free ports. According to Chinese sources, registered Chinese and foreign enterprises can, "engage in international entrepôt trade, and export processing and warehousing." Goods passing through the zones, "are exempt from import licences and tariffs." Foreign financial and insurance organizations can operate here, and "foreign exchange income from business activities can be retained by the business and used freely in the zone."<sup>14</sup> The Waigaoqiao free trade zone in Shanghai is the largest in terms of area. It began actual operation in April 1993 and has already attracted substantial investments. The two other free trade zones in the area, Ningbo and Zhangjiagang, have been in operation since 1992.

To summarize: in the nineties, buoyed by China's economic success in the past decade, a "second wave" of China's economic development is moving northwards and on an east-west line, beginning in the Yangtze River Delta and following along the valley all the way to Chongqing in Sichuan, over 6000 km inland. As a focus for this new "growth pole," the state has designated Shanghai to be the "dragon's head," to act as catalyst and funnel for this proposed growth.

The Pudong New Area is designed to provide Shanghai with the space and new investment that it needs. Along the Yangtze, old treaty ports are coming to life, as foreign ships sail to Wuhan and further upriver. Over twenty-five cities will be designated as "open cities." In addition, three key cities in the delta have been permitted to establish free port zones. The Yangtze area has been designated as the first of China's seven new economic regions.

In the following sections of the paper, these developments are analyzed in more detail. Specifically examined are the changes taking place in Shanghai-Pudong; the nature of economic growth in the Yangtze Delta; and the main features of the broader Yangtze River Valley region as envisaged by Chinese planners and officials. In the final section of the paper, China's second wave growth is looked at from the broader macroeconomic and political context, with a discussion of six questions that focus on the course of China's reform and development in the current decade.

### **Shanghai: Restoring the Glory**

When Deng Xiaoping went on his now-famous southern tour in early 1992 and loosened the reins on reform and development, he said that China, "should have many Hong Kongs." The first and foremost candidate to be another Hong Kong could only have been Shanghai. Deng said that not making Shanghai into a Special Economic Zone, like Shenzhen back in the early 1980s, had been a mistake:

In talented people, technology, and management, Shanghai has clear superiorities which radiate over a wide area. Looking back my big mistake was, when setting up four special economic zones, not to add Shanghai. If I had done so, the situation now in the Changjiang Delta, in the entire Changjiang Valley, and even in the entire country with regard to reform and opening up to the outside world would be different.<sup>15</sup>

Now Shanghai is catching up. It and neighbouring Pudong are alive with construction. New office towers poke through the familiar city skyline. The city's GNP rose by 22.8 percent in 1992 and grew by another 14.2 percent in the first part of 1993. Gross industrial output rose 24.3 percent in 1992 and increased again by 20.6 percent in the first part of 1993. Foreign investment has risen dramatically. The number of new projects in 1992 totalled 2012, an increase of 451 percent over 1991. The contracted amount of direct foreign investment in 1992 was U.S.\$3.3 billion, 646 percent more than in 1991. Shanghai is fast becoming a major financial and securities centre. The recent Morgan Stanley Report was ecstatic over the future of Shanghai, observing that China will have "the mother of all bull markets," primarily located in Shanghai. A "Klondike-like rush" is under way to participate in the Shanghai stock market.<sup>16</sup>



Thirty percent of China's exports are currently moving out of the city's port, and that figure could rise as soon as additional port facilities are completed. The present seven container berths, cranes, cold storage facilities and warehouses are overburdened. Five new berths will be added in the next two years.<sup>17</sup> Major investments are being made to alleviate the city's transportation crisis. Anyone who has sat in Shanghai traffic for hours at a time knows how impossible it is to travel any distance within the city. Subway construction has been accelerated, and a second line, connecting Shanghai to Pudong is scheduled to begin in 1995. The completion of the Nanpu suspension bridge in 1991 linked the new Pudong area to the city. The Yangpu bridge opened to traffic in September 1993. Other projects include a 45 km ring road, an eight-lane expressway, a new airport, new railway lines and expansion of existing trackage, a major expansion of the city's telephone network, and an expressway linking Shanghai with the big cities in the delta of Suzhou, Wuxi, Changzhou, Zhenjiang and Nanjing. The city has been given authority to approve up to U.S. \$30 million direct foreign investment without requiring Beijing's approval.

Meanwhile, the Pudong New Area, to the east of the city, resembles a large construction site. Covering an area of 35 000 hectares, Pudong is comprised of four separate development zones. The Lujiazui Banking and Trade Zone in the centre combines banking, trade, commerce, and real estate with information and consultation services. The Jinqiao Export Processing Zone is, "the first advance export processing base which will be developed into a comprehensive processing industrial city".<sup>18</sup> The Waigaoqiao Free Trade Zone will permit the flow of tariff-free goods through Shanghai's port. The Zhangjiagang High Tech Garden Zone has been set up for developing microelectronics, optical fibre technology, telecommunications equipment, and related software.<sup>19</sup> The frantic rush to develop infrastructure gives the area an oddly unfinished look, a mix of mud and gleaming technology, a metropolitan frontier that is waiting to explode into the twenty-first century. Despite the lack of facilities, over 700 foreign firms signed agreements to establish operations in Pudong at the end of 1992, "eager to reap tax holidays on the first two profit making years of the venture and a 50 percent reduction on the 15 percent tax rate during the next three years, provided industries are export-oriented."<sup>20</sup> A good part of this foreign investment euphoria is due to the central government's strong commitment to Pudong. According to a top Japanese banking official, international investors are reassured by this commitment: "Every city in China has a development zone, but the national government supports Pudong."<sup>21</sup>

The choice of Shanghai as China's next growth pole was logical, but also controversial. For nearly forty years after the Communists took power the city had been shackled to Beijing. Communist policy emphasized balanced national development. Shanghai's resources were redirected to inland areas and to the centre. With 8 percent of the country's population, the city contributed 17 percent of its tax revenues to the centre. In the eighties, when the open policy came into

being the leadership preferred to confine initial contact with the outside world to the south. In retrospect, it was a sensible decision, given the closeness of Hong Kong to the Pearl River Delta, and the experimental nature of the enterprise. Furthermore, opening up a commercially driven marketization in the south did not require as massive an investment in infrastructure as a Shanghai-led growth pole would necessitate for development of the Yangtze region.<sup>22</sup>

Perhaps the decision to make Shanghai into China's Hong Kong was also hastened by the changing power structure in Beijing. "Both Jiang Zemin and Zhu Rongji went to the Centre from Shanghai, bringing lots of Shanghai cadres with them. Qiao Shi also worked in the Shanghai underground, giving three of seven members of the Political Bureau Standing Committee substantial connections with Shanghai. Furthermore, each year Deng Xiaoping and many other leaders spend the Chinese New Year in Shanghai."<sup>23</sup> Other observers minimize the importance of this political *guanxi* with the Centre. They note that the real change to Shanghai's position took place after Deng's trip to the south in early 1992, and that those in the Centre who have a Shanghai "past" are quick to shed it once they have Central level responsibilities. The point that is made by most observers is that the decision to open up Shanghai is primarily an economic one based on a commitment to economic growth. This decision has removed the previous limitations on Shanghai, which were essentially political and ideological.

Have the Central authorities made the right decision in choosing to focus on Shanghai? A recent Chinese report evaluates the city's "superiorities" and its "restrictive factors." Three superiorities are cited: historical; geographical; and economic. From a historical perspective, Shanghai is simply resuming a role that has been denied to it by forty years of Beijing-dominated policies. The city, "was once praised as the New York of the Orient and the great metropolis of the Far East." It was the trade, financial, and economic centre of China and a great international city. Second, "on China's long coastline Shanghai's position is approximately in the middle; the distance to the north and the distance to the south are roughly the same. Shanghai is situated at the mouth of the largest river in Asia ... it faces the Pacific Ocean and has intercourse with the world." Third, in economic growth (GVIO, GDP), according to the latest statistics, it remains the most productive of China's ten largest cities.<sup>24</sup>

Yet despite this positive view Shanghai has major liabilities that will hinder its rapid development. It has a very large proportion of state-owned enterprises (SOEs), and the productivity of SOEs lags significantly behind the nonstate sector. Shanghai "has an old industrial base and much of its equipment is outmoded; thus it has a heavy task in innovation and transformation." Will the Pudong New Area be able to pick up the slack? The city is old; its population density is the highest in China; its infrastructure and public utilities are woefully inadequate. The city, "suffers from the world epidemic of 'big city illness' and

to effect a radical cure and switch it to a benign cycle is not something that can be done in one day."<sup>25</sup>

In October 1992 Jiang Zemin outlined Shanghai's new leadership role in the region:

We must take the development and opening of Pudong in Shanghai as the dragon head, advance another step to open cities on the banks of the Yangtze River and establish Shanghai as an international economic, financial and trading centre as soon as possible, in order to introduce a new economic leap in the Yangtze River Delta and the entire Yangtze River Valley.<sup>26</sup>

Jiang's blueprint for future development suggests that organizing an integrated, efficient Yangtze region with Pudong-Shanghai at its head will not be a difficult task, once the Centre has put the plan into motion. It all seems so natural and logical. In fact, as Chinese sources have pointed out, in the eighties an attempt had been made to organize a Shanghai Economic Zone, "which came to a premature end and left behind lessons that should be heeded."<sup>27</sup> By 1988, the first Shanghai Economic Zone had been abandoned. The various administrative components of that first region, principally the provincial level administrative units, had resisted the domination of Shanghai.

How to overcome this problem in the new, larger, "super-region" of the nineties, when the gaps between rich and poor have widened, and when central authorities have less power to compel administrative units to cooperate? The challenge will be to utilize the huge state investment and special privileges granted to Shanghai and the Yangtze region to promote so much economic growth that there will be enough to satisfy all the elements and prevent the emergence of "dukedom economies."<sup>28</sup> The regional blueprint for Shanghai is better organized, comparatively well funded, and has strong central support. It can build on the example of southern/coastal development and on the experience of ten years of reform policies. Even so, "Building a great internationalized metropolis is a grand piece of systems engineering, which requires a comprehensive plan and will be gradually achieved (only) after several decades of struggle."<sup>29</sup>

### The Power of the Yangtze Delta

The Yangtze (Changjiang) River Delta is China's most industrially developed area. Roughly defined, it includes Shanghai, seven cities in Jiangsu Province (Zhenjiang, Yangzhou, Suzhou, Wuxi, Changzhou, Nantong and Zhangjiagang), and six cities in Zhejiang Province (Hangzhou, Jiaxing, Huzhou, Ningbo, Shaoxing, and Zhoushan). If Nanjing to the west of Zhenjiang is added to the Yangtze Delta, it covers an area of about 100 000 square km, or 1 percent of China's total. The population comprises 75 million, or 6.3 percent of China's population. Area GNP is 13 percent of national GNP, and the per capita figure

is over 3000 yuan, or double the national average. "The delta has complete industrial branches, rationally developed light industry and a complete and strong industrial structure."<sup>30</sup> It has the most advanced agriculture in the country and is the base area for the highly successful township and village enterprises (TVEs) which currently account for as much as 25 percent of China's export production.<sup>31</sup> To date, the delta has approved, "a total of 25,000 joint ventures, cooperative enterprises and solely foreign funded firms with a combined investment of US\$30 billion on contract, accounting for one fourth of the nation's total."<sup>32</sup> In the first ten months of 1993, foreigners invested U.S.\$8 billion, an increase of three to four times over the same period in 1992.

Jiangsu Province, located northwest of Shanghai, now ranks first in China in gross industrial and agricultural output. With a population of 70 million, its economic indicators are spectacular. In the fifteen years since China began to reform its economy, annual GNP growth in Jiangsu has averaged 11.8 percent.<sup>33</sup> In 1992 its GNP rose 27 percent, more than twice the rate of growth of the national economy. Gross Industrial Output increased by 42.9 percent. Foreign trade was up by 38.8 percent (exports increasing by 35 percent and imports by 51.4 percent). Foreign investment has simply taken off: 8194 projects were approved in 1992, a rise of 620 percent (!) and the contracted amount of foreign investment was U.S.\$7.69 billion, a leap of 880 percent. This trend has continued in 1993. During the first quarter Jiangsu approved, "a startling 3,074 new contracts—an average of 34 a day—or five times the value for the same period last year." By the end of 1993 more than 10 000 new foreign-invested projects will have been contracted.<sup>34</sup>

Until recently, this economic success was achieved despite lukewarm support from the Centre. In earlier years, the bulk of state investment had gone to inland areas, and Jiangsu was forced to concentrate on light industry. It was not easy for Jiangsu to obtain the raw materials and capital to sustain growth:

Forced to go to the market, the province sent buyers around the country to purchase raw materials directly, offering higher prices for their products. Salesmen were also sent outside to sell their goods. By 1992, more than 90 percent of the province's purchases and sales were outside the planned economy, while the prices of 95 percent of goods were determined by the market.<sup>35</sup>

While a majority of China's state-owned enterprises (SOEs) are either losing money or are barely functioning, the situation in Jiangsu is much better. Of 2550 SOEs, only 160 are losing money, and Jiangsu SOEs are the most productive in China. The township and village enterprises (TVEs) are a central feature of the Jiangsu economy. "These small, mainly collective, ventures account for 50 percent of industrial output and 40 percent of the exports in the province." The government's policy of encouraging people to "leave the land but not the village," has stimulated rural industry and found employment for up to 10

million inhabitants. The province also strongly supports the expansion of the private economy. *Getihu* (individual businesses with seven or less employees) and private businesses (comprised of eight or more) are growing rapidly. By the end of 1992, there were 877 000 *getihu*, employing 1.3 million individuals, and close to 6000 private businesses with an additional 86 700.<sup>36</sup>

The province is in the midst of a major expansion of its transportation sector. Although its location on the Yangtze River and the existence of the Grand Canal place Jiangsu first in China in terms of inland water transport, it faces serious bottlenecks as its economy expands. One Chinese official observed: "The Japanese complain that it takes just two hours to get from Japan to Shanghai, while it takes five hours to get from Shanghai to Nantong."<sup>37</sup> Highways that link up the province's major cities will reduce travel time between Nanjing and Shanghai to half, as well as connect the more developed southern part of the province with its northern port cities. Another bridge is being built across the Yangtze, and the main railway lines are being expanded with double tracking and even electrification.

It is worth noting that Jiangsu's cities are among the most productive in China. In terms of industrial output, Shanghai ranks first, Beijing second, and Tianjin third. But the cities of Suzhou and Wuxi may have passed Tianjin in terms of industrial production. Wuxi's production increased by 40 percent in 1992. Other Jiangsu cities such as Nanjing, Changzhou, Zhenjiang, Yangzhou and Nantong are booming. David Zweig has recently reported on the exceptional growth of Zhangjiagang.<sup>38</sup> The city of Suzhou, located near the east coast, has adapted well to the new reforms. In 1992 its GDP rose by 38.8 percent. Its industrial production under the state mandatory plan has dropped to 6 percent, which means that 94 percent of its industrial products are produced according to market demand.<sup>39</sup> The city has expanded its industrial capacity through a recent agreement with a Singapore developer, and with the designation of a New District and a high-tech park. The intention is to link Suzhou more closely with Shanghai, which is close by. Located along the Yangtze River, Suzhou has good access to the sea, to ports at Shanghai and Zhangjiagang, and to the main Beijing-Shanghai rail line. It will soon take only forty-five minutes to travel from Suzhou to the Shanghai International Airport. Currently Suzhou can offer production sites at a lower cost than Pudong and this should sustain Suzhou's present economic boom.

Zhejiang Province's growth has not been quite as impressive as Jiangsu's. Still, the province's GNP rose from fourteenth place in 1980 to sixth place in the country in 1992. From 1980 to 1992 Zhejiang's annual growth rate was 12.1 percent, ranking second in all of China. Strictly speaking, it could be argued that Zhejiang is not part of the Yangtze Delta: the river does not flow through it, although Zhejiang is linked to Shanghai by geographical proximity and trading relations. Until 1949 the two had a close relationship but these ties were loosened in the Communist period:

In a certain period in the latter half of the 20th century, however, these rich and varied ties were not as close as before. In the framework of the "planned economy", Zhejiang and Shanghai embarked on the same path, but failed to understand their "close relationship", only either side feeling a lack of something.<sup>40</sup>

In the eighties, Zhejiang's economy expanded. The province, "opened 34 counties and cities to the outside world, increased its export items from 500 to 2000 (bringing its total export volume to seventh place in China), established economic relations with 140 countries and regions in the world, introduced US\$10 billion in foreign funds, and set up 6000 foreign-funded enterprises."<sup>41</sup> Thus, the province is well-positioned to play a key role in the Yangtze Delta, especially in re-establishing close economic links with Shanghai. Unlike Jiangsu which has traditionally viewed its economy as competitive with Shanghai, Zhejiang's is more complementary. It supplies a substantial portion of raw materials for the Shanghai textile industry, and a significant part of the city's building materials and construction teams. Economic and trade links in the Hangzhou-Shanghai corridor are highly developed. In its northeastern part, the province has deliberately sought to hitch its economic star to the Shanghai-Pudong wagon.

In 1992 Zhejiang formulated a plan, "to link up Zhejiang's economic track with those in the Pudong District and the areas along the Changjiang." This "economic track-linkup" plan, was seen as a "breakthrough" in Zhejiang's development strategy. In looking beyond the province to Shanghai they were following the plan of: "allowing three cities to advance ahead of other areas," "relying on ports," and "expanding two lines." The three cities are Hangzhou, an international tourist city, and Ningbo and Wenzhou, both coastal open cities. Wenzhou was a model for economic development in the eighties.<sup>42</sup> Ningbo is being transformed into a major east China trade port ranking among the biggest ports in the country. The two lines are the areas around the Shanghai-Hangzhou-Ningbo highway, which contain several cities close to Shanghai. These are the most economically developed areas of the province and their more developed economies should be linked to that of Shanghai as a first priority, before other areas in the Province. Thus, Zhejiang province is encouraging its rich to get richer as it becomes more closely linked to Shanghai:

To carry through the plan ... Zhejiang emphasized the necessity to give play to local advantages in natural and economic resources (in those parts of Zhejiang located close to Shanghai) and to maintain the "disparity" in industrial structure between Zhejiang on the one side and the Pudong District and the areas along the Changjiang on the other. Only by maintaining the disparity can the mutual complementarity between different regions be strengthened.<sup>43</sup>

This reference to regional considerations raises the more fundamental question: Is the Pudong-Shanghai-led Yangtze Delta a "region," or just a group of fast-growing economies put together by administrative fiat? The old Shanghai Economic Region lacked administrative power and funds. It existed at a time when central authorities seemed to be looking elsewhere. It could only consult and coordinate. The various administrative subunits jealously guarded their self-interests. Its modest successes were in the improvement of the regional transportation and communications system. It failed, however, to coordinate industrial development and was abolished in the late 1980s.<sup>44</sup>

A recent study suggests that, "Since the Yangtze River Delta is an informal geographic term which does not reflect any formal government organ, the definition of the region remains ambiguous."<sup>45</sup> Strictly defined, the delta does not include all of Jiangsu Province. Its largest city, Nanjing is excluded. Nor does it include Zhejiang, except for the Shanghai-Hangzhou corridor. "Some people limit the region to the southern bank of the Yangtze River, but others include Nantong on the north bank. In Zhejiang ... Shaoxing and Ningbo do not belong to the Yangtze Delta region."<sup>46</sup> What gives credence to the existence of a regional formation in this area is language. Geographic proximity and economic flows have helped to produce a regional economy in the delta. However, it is language that, in the first instance, links Shanghai with Southern Jiangsu, in what constitutes the delta's hard core:

The languages of the whole southern bank of the Yangtze River from Shanghai to Danyang (between Changzhou and Zhenjiang) belong to the Wu (Shanghai) group. West of Danyang, including Zhenjiang and Nanjing, the population speaks Mandarin. This language affinity helps bind the Shanghai and Southern Jiangsu economy together, and assists four types of flows (*liudong*) or transfer—personnel, technology, information and finance—which enhance the economic integration between Shanghai and Southern Jiangsu.<sup>47</sup>

In the fifties and sixties many cadres were "sent down" from Shanghai to Southern Jiangsu and forced to settle there. They went to such cities as Suzhou, Wuxi, Changzhou and Nantong, "where they were near Shanghai and could speak the local dialect (Shanghai dialect) and eat familiar food."<sup>48</sup> These former Shanghai cadres set up many of Jiangsu's successful township enterprises (TVEs) and "helped establish economic links between their enterprises and Shanghai."<sup>49</sup> In more recent times, the Shanghai-Southern Jiangsu connection has been reinforced by a corps of "Sunday Engineers"—cadres who work in Shanghai during the week and then consult for, or work in, the TVEs on Sundays. Thus, the ties of local language, geographic proximity, and economic self-interest have contributed to an integrated economy in that part of the delta comprising Shanghai and Southern Jiangsu, and the Shanghai-Hangzhou corridor.

### Tracking the Dragon Upriver

Shanghai and the Yangtze Delta are the head of the dragon. Its body, however, is said to extend thousands of kilometres upriver, past Wuhan in Hubei province, beyond the Three Gorges, to its tail in Chongqing. As it flows across the heart of China, the river passes through nine provinces, containing 40 percent of the nation's population. Historically the Yangtze has been the major transportation link between the coastal and interior regions. Culturally, it marks the boundary between north and south, between the wheat- and rice-growing parts of the country. Economically, close to half the nation's agricultural and industrial production takes place in the areas under its influence.

Specifically, the Yangtze River Valley has a number of strengths. First, it is China's leading navigation system, linking the centre to the sea. Its main course is deep and wide and is ice-free. It accounts for 70 percent of the nation's inland waterways. Second, the river has significant hydroelectric power capacity. Its drainage areas hold 40 percent of China's total hydroelectric power reserves, including the massive energy potential of the Three Gorges Project. Third, it "leads the country in mineral resources," accounting for 80 percent of the nation's total reserves of minerals of all kinds. Fourth, it is the biggest, most comprehensive industrial and processing centre in China. Fifth, it contains one of the biggest concentrations of scientific/technical/educational talent in the country, especially in the delta area. Sixth, it holds one-fourth of China's cultivated land and produces 40 percent of its total grain crops. The TVEs in the

Map 2: Sketch of the Yangtze River Valley  
Source: *Economic Reporter*, #7, 1993.



lower and middle reaches of the valley account for 39 percent of national TVE production. Seventh, the area possesses several important tourist attractions, and tourism is increasingly becoming a major source of growth along the Yangtze. Eighth, it is China's most urbanized area, containing most of the country's major cities, from Shanghai to Chongqing.<sup>50</sup>

In the current Eight Year Plan and Ten Year Development Program, the central government has identified energy and transportation as targets of high-priority development.<sup>51</sup> State investment is to rise significantly in both these sectors. Investment in the Yangtze is a number one priority, beginning with the Three Gorges Project, but also including the expansion of river navigation, construction of ports, the building of several new bridges crossing the river, major highways, airports, and the enlargement of railroad capacity. The controversial Three Gorges Project represents the most massive commitment of resources. It will have a tremendous effect on the region and country, once it is completed in fifteen years, but other projects will have a more immediate impact:

The three bridges spanning the Yangtze will be supplemented by seven new ones in Yichang, Wuhan, Jiujiang, Wuhu, Tongling, Jiangyin and Nanjing, now in various stages of planning and construction. Construction of five new airports is underway in Shanghai's Chuansha, Nanjing, Wuhan, Yichang and Chongqing.<sup>52</sup>

While investment in infrastructure is a number one priority, the "region" must also work out a strategy that can link its component parts effectively together. If the river gives a sense of coherence to the concept of a region, the various provinces through which it flows have their own agendas and interests. Poorer provinces such as Anhui or Jianxi find it hard to identify with the interests of the richer provinces and Shanghai in the delta. The city of Wuhan and its province of Hubei may be more interested in developing their position as an inland regional hub, than as a part of a Yangtze River region headed by Shanghai to the east. At the dragon's tail, Chongqing may find its links with Southwest China to be more relevant. There are language and historical differences that prevent easy cooperation among some of the regional administrative units. It is clear that gaps exist between the highly developed coastal areas in the delta and the rest of the Yangtze, and also among different areas along the river.

In order to promote better "linkage" along the Yangtze and to minimize the growth of provincialist tendencies, the planners have identified a number of "belts" or development zones, generally located within provinces in the valley. These include the Maanshan-Anqing Belt in Anhui; Nanchang-Jiujiang in Jiangxi; Huangshi-Wuhan in Hubei; Tongting Lake in Hunan; and Yichang-Chongqing, located in both Hubei and Sichuan. Each of these development zones, which essentially comprises a defined segment of a province bordering

the Yangtze, have been given a number of key infrastructure projects designed to satisfy their local needs, while linking them to the broader interests of the Yangtze region.

For example, the Nanchang-Jiujiang Belt in Jiangxi is 120 km long, with two cities, five industrial development zones and six "open" zones. The goal is to develop this area into an export-oriented, technology-intensive new industrial belt, combining industry and agriculture, town and country, and domestic and foreign capital investment. The first group of 132 projects has begun, with an investment of 1.8 billion yuan, to be completed by 1995. More than 400 foreign-funded projects (half of the province's projects) with a total foreign investment of U.S.\$560 million (70 percent of the province's total) have already been contracted or are under construction. Key infrastructure projects are currently being built, such as bridges at Nanchang and Hukou, airports in Nanchang and Jiujiang, a section of the railway line running from Beijing to Jiujiang, and railway stations in Nanchang and Jiujiang.

In the best of all planners' worlds this should produce a region with:

Rational distribution of projects and allocation of resources ... made in accordance with internal economic bonds and requirements of scale economies. Within the region, barriers between different areas, departments and trades will be broken down ...<sup>53</sup>

These are ambitious goals. They require strong state direction and investment. There has to be enough prosperity throughout the valley to commit provincial governments to the regional concept. Rapid growth requires a smooth relationship between government planners and individual entrepreneurs, and there is no guarantee that this is possible. There has to be strong support from foreign investors and traders. The advanced areas in the delta will need to help the inland, upriver areas to market and export their products at good prices. The upriver areas, on their part, will have to accept some direction from the more productive "dragon's head," even if they may chafe at the prospect. It may be that the Yangtze "dragon", as it is now depicted, is simply too large to be a functional region. The Three Gorges Project may be too ambitious, too financially demanding, and may produce fragmentation instead of integration. The proposed time frame may be too short. The blueprints for the creation and nurturing of the Yangtze dragon may appear logical and persuasive on paper but, as past history has shown, actual outcomes generally depart from planners' blueprints.

The creation of the Changjiang "dragon" has stirred our imagination. We can distinguish a "head" in the delta, with a solid claim to future economic leadership in China. Focus on Shanghai and the delta as China's "second wave" of development makes sense. But as we move downriver, the dragon's body loses shape. We can see the dragon's tail in Chongqing, but by then the river has become a narrow thread, a mere metaphor. We think we see a dragon. We can

almost hear it roar. Is it possible that such a large and powerful beast, spanning 400 million people could actually exist? Or should we be content to see the dragon as metaphor, rather than reality, as an idea that serves as a catalyst for economic growth and reform in the various provinces occupying the heartland of the nation?

### **Macroeconomic and Political Factors: Six Questions**

In earlier sections we introduced the concept of the Yangtze Region and analyzed its component parts. We argued that the Yangtze Delta, with Shanghai-Pudong at its head, is positioned to be China's next "growth pole", the centre of a "second wave" of development and reform that can carry China into the twenty-first century. The Yangtze's history, location, and resources provide a solid base for growth. Current economic performance in the delta and in key upriver areas, suggests that the Yangtze is ripe for "take-off." Whether the whole valley is a viable region or not, may be irrelevant: the economic development and reform that it stimulates provides the ripple effect that will bring China's current economic revolution inland and northwards in the next decade.

To complete our analysis of the second wave, we need to assess the macroeconomic and political factors that can affect economic performance in the Yangtze region. Such crystal-ball gazing is a risky business, but in this section we make the attempt, specifically by posing, and answering, six questions about the course of China's political and economic development to the year 2000.

1. What will happen after the death of Deng Xiaoping?
2. Will regionalism destabilize China?
3. Is China's current economic growth sustainable?
4. What is the state's role in development and reform?
5. What is the foreign community's role?
6. What about ideology and culture?

#### *1. What Will Happen after the Death of Deng Xiaoping?*

Most scenarios focus on what will happen to China after Deng's death. Political succession in Communist systems is no simple task. The authoritarian nature of politics and the historical need for a single ruler (Deng is China's "paramount leader") lead to the view that there inevitably must be a struggle for power after Deng's death. Various contenders and their factions, drawing on military and regional groupings, could destabilize and paralyse the political system and the economy. Even if force is not utilized, there will be uncertainty about China's future course. Provincial leaders will see a weak centre and take advantage of this situation. Foreign investors will hesitate to commit their funds to a potentially divided regime. The transition from Deng to someone else could be

prolonged and painful, weakening the reforms, bringing in the army, and causing the economy to grind to a halt.

That is the pessimistic scenario, based on the assumption that transfer of political power after the death of Deng is structurally destined to produce a destabilized regime. On the other hand, there are more optimistic predictions. A major international investment house notes, "Some investors worry that the death of Deng Xiaoping is a big risk, and could knock down China-related equities by 20 percent or so. I don't think so. Deng is strictly a symbolic figure." The study suggests that the death of Deng could actually lead to accelerated economic development and political liberalization, rather than repression and paralysis, and concludes with the somewhat facile observation, "Remember Disney when Walt went?"<sup>54</sup>

The truth probably lies between these views. Even if the current succession arrangements are designed to promote a smooth transfer of power after Deng's death, there is no reason to suspect that these arrangements will be lasting, so that, for example, either Zhu Rongji or Li Peng or Qiao Shi or someone else will be dissatisfied with Jiang Zemin as China's next "paramount leader." Anointed successors never fare well in China. Even so, the emergence of a nonanointed leader could take place without destabilization or more than a short-term crisis. One tends towards that possibility for a number of reasons. First, the lessons of Tiananmen have been well-learned by the top echelon. Unity and balance must be maintained in times of crisis. The Centre cannot afford to be weak—and the perception is that most citizens agree. This also includes key military and regional leaders. Second, there are no major disagreements among the leadership that could form the basis for a violent power struggle. All elements, conservative or reform, are currently committed to economic reform. And the reforms are working. Unless the economy collapses with a thud just as a leadership vacuum appears, the risk of a central factional struggle is less now than it has been for some time. Third, the regime has learned from its "Soviet Elder Brother," and has no intention of engaging in a long-term public display of political infighting or political liberalization. The fate of the Communist Party in Russia is a reminder of what might happen if the leadership transition gets out of control.

#### *2. Will Regionalism Destabilize China?*

We are inclined to the position that in the post-Deng period the prospects of regional fragmentation are slight. The forces that promote political unity and balance within the top leadership also discourage the breakup of China. While it is clear that China is now more decentralized than it has ever been under the Communists, we should not equate decentralization with destabilization, or with a desire for separation. Historically, even when the centre has been weakest in the twentieth century, when provincial warlords reigned supreme, they did so often as surrogates for a collapsed centre, holding power in absentia until the

centre could be restored.<sup>55</sup> Today's provinces and regions want to maximize their economic power, but to do it within the framework of a unified Chinese nation/state. There is no tradition of regional separatism in China. Centre and region have historically undergone periods of "lightening and hardening up" of central power. Today we may be moving into an era of "lightening up", in which a measure of state power is transferred downwards.<sup>56</sup>

The current economic reforms promote the devolution of authority from the centre. Decentralization and marketization are linked together. Deng's maxim, "to be rich is a good thing" encourages regional and provincial disparities by allowing rich areas to get richer. The centre's role as the promoter of equalized, national development is transformed and diminished, but not abdicated. Two areas of potential conflict between the centre and the provinces are taxation and local tariffs. At the present time a tax agreement is being worked out between centre and provinces over revenue collection and sharing. Early indications are that this agreement will not lead to major declarations of provincial independence but will, in fact, produce a viable working relationship for the future. As long as economic growth continues at a high level, local governments should be able to obtain enough tax revenues for essential services without burdening individuals and enterprises with excessive taxes. Second, and perhaps more problematic, is the emergence of "dukedom economies" (*juhōu jingji*) in which local governments try to maximize their economic gains by narrow, locally based policies that include the imposition of illegal tariffs and other arbitrary measures. As one local businessman noted: "We have to keep one eye on the market and the other on the mayor."<sup>57</sup> In such a situation both centre and province may have to work together to combat what is seen as economically dysfunctional behaviour.

### 3. *Is China's Current Economic Growth Sustainable?*

In order to be optimistic about China's future development one has to believe in the sustainability of China's current economic boom, at least into the twenty-first century. The World Bank has provided three possible scenarios for the nineties for China. Even the most conservative scenario foresees an average growth rate of about 5 percent. The most favourable, the "accelerated reform scenario," suggests an annual growth rate of 8.5 percent. In fact, according to the World Bank, "the Chinese economy will continue to show its tendency for high growth under most conceivable scenarios." The Morgan Stanley Report is even more enthusiastic. In their view, "investing in China will be the world's most profitable investment opportunity for the next ten years," with an economy that will be, "a major success story" and a growth rate that "can be sustained at 8 percent." A more cautious Japanese analysis, however, concludes that 8 percent is too high, and "a more reasonable rate would be in the 5-6 percent range."<sup>58</sup>

Most observers lean towards the World Bank projections. In their view the Chinese have been able to maintain high growth rates despite inflationary pressures, and in spite of the difficulties involved in the transition from a command to a market-driven economy. China has benefited from high investment rates and from an explosion in its foreign trade. Moreover, the state continues to provide essential direction, even as it has decentralized a large part of this economy. Still, there are economic soft spots. First, a large part of current Chinese growth is export-led. If China has difficulty in maintaining its high exports in the future, as the cost of its exports rises, or when countries such as India and Indonesia emerge as competitors on world markets, will this have a serious impact on growth projections? Will China then be able to redirect its export-oriented production to serve its vast domestic market?

Second, the economy has a number of problem areas that could hobble future growth: energy shortages; transportation bottlenecks; population pressure; shortages of raw materials; aging of facilities; pollution; inadequate technology; corruption; inflation. These are real concerns, but the consensus is that the present economic boom can override most of these problems. Third, can the southern/coastal strategy be transferred northwards and inland, to spread growth more equitably throughout China? In this paper we identified the "second wave" of development in the Yangtze River Valley as the extension of the southern/coastal strategy, and argued that the Yangtze will serve as China's new "growth pole." Finally, can the high growth rates overcome the destabilizing effects of a widening urban-rural gap and of regional and local disparities in income and productivity?

To be sure, heavy investment in the Yangtze Valley transportation and energy sectors may maintain the momentum of growth in this region, even if the economic boom might begin to flag in other areas of China. Megaprojects such as the Three Gorges and the Pudong New Areas can serve to keep a faltering economy going, by attracting foreign investment and stimulating local and regional development. In the final analysis, however, state-led investment can only serve as a complement to, and not a substitute for, a high growth rate.

### 4. *What Is the State's Role in Development and Reform?*

There is a strong element of state direction in the Yangtze project. We are struck by how large a role is given to central planning, from Pudong, to the many development zones, the transportation and energy networks, and the Three Gorges. The state planners provide the bare bones of development: it is up to the local entrepreneurs and the market to flesh out the body. Much of this megaplanning is reminiscent of the grand projects of the fifties, and of earlier periods of socialist planning in the Soviet Union. Given the slow and clumsy pace of many of these former projects, we should be careful not to be swayed

by the flashy promises of today's planners. However, conditions are different in Deng's China. The market economy provides the energy and entrepreneurship that was lacking in the socialist past. Planning goals are now less fettered to ideology, and more rational and attainable.

In finance and investment, the central state still plays a key role, but it provides less of the funding, and seeks partners from other levels of government, and from the nonstate sector, including international investors. For example, the Special Economic Zones (SEZs) received no central funding, but Pudong, which is estimated to cost 50 billion yuan, "will be largely financed through central sources (10 billion direct from the central government, 10 billion from centrally supported World Bank loans, and 15 billion from centrally supported financial instruments, 7 billion will be directed from Shanghai's central tax remittances, and a mere 8 billion from Shanghai-issued shares and bonds)." <sup>59</sup> In the case of the Three Gorges, the central government has allocated U.S.\$18 billion for the construction of new capacity in the Eighth Five Year Plan. Provincial governments and big state-owned enterprises are expected to invest twice that, and several million dollars will come from foreign soft loans and international banks. <sup>60</sup>

In its combination of planning and market principles, the Yangtze project serves as an example of China's commitment to socialist modernization, to the "bird in the cage" metaphor, wherein the "bird" of the market can fly freely, but only within the socialist "cage." <sup>61</sup> The Yangtze project is a test of this metaphor, and also a challenge to the majority of Western economists who argue that the two kinds of economies cannot function effectively in tandem. The Yangtze project shows how a division of labour could be worked out between them, and how, with flexibility and compromise, the advantages of each type of economy might be utilized to sustain economic growth. While we are not yet ready fully to acknowledge the long-term viability of this Chinese bird in the cage model, the Yangtze project offers encouragement in this direction.

### 5. *What Is the Foreign Community's Role?*

Foreigners are an integral part of China's future development and reform. The "open" policy is based on the recognition that China's modernization had to be linked to the global economy. China's economic growth has been fuelled by a boom in foreign trade and by rising foreign investment. The development of Pudong-Shanghai and the Three Gorges is based on the expectation that foreigners will want to invest heavily in China in the next decades. There is optimism and a "bull market" psychology about China in the minds of an ever-widening circle of foreigners.

This has occurred despite Tiananmen. In 1989 the international community reacted in anger at China's actions. Political sanctions were applied to show displeasure with China's leaders, and commercial and trade relations faltered.

China's relations with the outside world, especially with the United States, soured. Investors and traders backed off. Yet four years later China's trade with the outside world is larger than it has been at any time in China's history. Political relations with many Western nations have not fully recovered, but economic relations are booming. For us, the lessons of Tiananmen are that we have minimal influence over China's leaders, and that trade takes precedence over human rights. For the Chinese, Tiananmen showed that political liberalization is dangerous, and that foreigners will continue to invest in China once they are convinced of its political stability.

There are three roles for foreigners in the China of the nineties. First, from a Chinese perspective, we are there to provide technology transfer, investment capital, infrastructure, and to demonstrate market practices, including knowledge of how the global economy works. Second, we are doing business in China, as good capitalists, simply for profit, for what we can extract on the best possible terms. Third, we are also there to remind the Chinese that there are political and social consequences to marketization, such as liberalization, human rights and the growth of civil society. Consciously or not, we are spreading "peaceful evolution," initially in coastal areas and now even further, into China's heartland.

### 6. *What about Ideology and Culture?*

For a long time the Chinese revolution seemed to be about ideology. Now it is primarily focused on economic growth. In the short term it is not hard to abandon ideology: people are too busy improving their living standards and, in any case, the old ideology has been substantially discredited. Still, when the boom slackens there could be a movement towards ideological purification or definition, such as attacks on pervasive corruption; anger at the profit-taking and the destructive values of foreigners; concern over the widening gaps between rich and poor areas, and among households. This may not keep China "socialist," but it may serve as a vehicle to express frustration at the ideological vacuum that now exists in China.

If the Chinese revolution was not about ideology, then it was about culture. One can argue that the Chinese revolution had to do with resolving a clash of cultures, and this conflict, while sublimated, is not over. <sup>62</sup> Economic growth brings prosperity, but it also accelerates the spread of Western culture and values. This is an old encounter dating from the nineteenth century, one that China's present economic boom cannot easily solve. As in other third world countries confronted by the West (Iran, India, Malaysia), it is conceivable that anti-foreignism, anti-Westernism, and nationalism will fill the present ideological and cultural gap. It is possible that no amount of economic growth can, in the last analysis, fulfil the need for emotional over rational satisfaction, for links with the past, rather than for ventures into the future. In dealing with the China



of the late twentieth century we should keep in mind that the Chinese are still trying to settle their past, Chinese or socialist. Whether in the Yangtze, Hong Kong or the South China Sea, we should, therefore, tread with care because our footsteps will surely be noticed.

### Conclusion

The previous section of this paper raised six questions that provide a macro-economic and political context for assessing China's development. Our purpose was to provide a broader framework in which to locate this study of the Yangtze River Valley region. The general assessment is one of "cautious optimism." In the current decade, the regime is more likely to be politically stable than not. The economy is more likely to remain buoyant. Having weathered the storms of Tiananmen, the Chinese leadership may feel it is in a stronger position to deal with problems of culture, ideology and foreign influence. It is conceivable that China has found a modernizing strategy that can integrate plan and market successfully.

The Yangtze River Valley may be too big to be an effective "dragon." Conceived most broadly, this "region" would be the third largest country in the world in population, after India and China. While upriver development plans are impressive, it is premature to speak of an integrated region running from Shanghai all the way to Chongqing. More narrowly defined, the Yangtze Delta has the potential to propel China northwards and inland, into a "second wave" of economic growth, especially the Southern Jiangsu-Shanghai "growth pole." Plans to make Shanghai-Pudong into an international "megacity," and the "dragon's head," appear, at this point in time to be on track.

The "second wave" takes the southern/coastal strategy into the heart of China, using the resources of the state and the entrepreneurship of the market economy. It is ambitious but the potential is clear. Shanghai and the Yangtze Delta are China's "growth pole" in the nineties. While other growth areas are emerging in Tianjin, Shandong, and the Northeast, it is Shanghai and the Yangtze Delta that are the key to China's successful development in the next decade.

### Notes

1. See Morgan Stanley, International Investment Research, *China! Report on the Morgan Stanley Tour of China*, Autumn, 1993.
2. *China News Analysis*, no. 1463, 1 July, 1992, p. 3; J. Bruce Jacobs and Lijian Hong, "Shanghai: Regional, National or International Centre?" (unpublished paper, 25-26 October 1993), p. 2; David S. G. Goodman and Feng Chongyi, "Guangdong: Greater Hong Kong and the New Regionalist Future" (unpublished paper, 25-26 October 1993) p. 7.
3. *Tongji zhidu fangfa wenjian xuanbian (1950-1987)*, (Collected Statistics), Beijing, 1988, p. 103.
4. *China-Britain Trade Review*, July 1992, p. 11.
5. On the relationship between reform and development planning in China, see World Bank, *China: Reform and the Role of the Plan in the 1990s* (World Bank: Washington, 1992).
6. "Blueprint for Yangtze Valley Progress in 90s," *Beijing Review*, 28 June – 4 July 1993, p. 13.
7. Liu Guoguang, "Shanghai—Moving Toward Becoming a Great Internationalized Metropolis in the New Century," *Wen huibao*, Shanghai, 9 July 1993 (JPRS-CAR-93-074, 7 October 1993), p. 14.
8. *Ibid.*
9. *Renmin ribao* (People's Daily), Overseas Edition, 7 April 1992, p. 2.
10. "Plans for Regional Economy," *Beijing Review*, 3-9 August 1992, p. 14.
11. While this paper focusses on the Yangtze, and argues that this region will become China's next "growth pole," we should, however, pay attention to developments in the other regions, in particular the area encircling the Bohai Sea (the growth of the Tianjin-Beijing axis; the emergence of Dalian as a major port; the substantial foreign trade and investment in the Shandong peninsula). The northeast is another region that is expected to become a major growth area, with industrial "reengineering" of obsolete state industries; large-scale cross-border trade, and substantial Korean and Japanese investment. Two other regions of particular interest are the central region, and the southwest region. Each of these intersect in part with the extended Yangtze region. We need to obtain a detailed inventory of their respective regional resources; knowledge of their transportation, communication and trade patterns; understanding of the role of state and foreign investment; and information on the marketization of the local economy.
12. Growth patterns in the six regions identified by Zou will differ somewhat from what is occurring in the Shanghai-Yangtze area, for example, in the nature and intensity of foreign investment and trade, the targeting of specific regional sector development, level of economic performance, and the role assigned to state investment. These themes should be explored in future studies of these other regions, to assess their relative importance as a component of China's second wave of development.
12. See *Beijing Review*, "Yangtze River Valley: A Soaring Dragon," 15-21 February 1993; "Spotlight—Chongqing," *China Trade Report*, October 1992, p.8; "Spotlight—Wuhan," *China Trade Report*, November 1992, p. 8; *Economic Reporter*, no. 7, 1993.
13. *Ibid.*
14. "Free Trade Zones in China," *Beijing Review*, August 1993, p. 14.
15. Cited in Liu Guogang, "Shanghai – Moving Toward Becoming a Great International Metropolis," p. 14. Also see Jacobs and Hong, "Shanghai – Regional, National or International Centre?" p. 1. They note that the full text of these talks has not been released, but they are contained in CCP Central Document No. 2 (1992) (*Zhonggong*

- zhongyang wenjian* [1992] *er hao*). The text of this document is available in *Jiushi niandai* [The Nineties] No. 260, April 1992, pp. 42-47.
16. Morgan Stanley, *China!* p. 13; p. 33.
  17. "Spotlight—Shanghai," *China Trade Report*, October 1993, p. 8.
  18. *Economic Reporter*, no. 7, 1993, p. 10.
  19. *Ibid.*
  20. "Spotlight—Shanghai," p. 10.
  21. *Ibid.*
  22. See later sections of the paper for further discussion of infrastructure investment in the Yangtze region. The differentiation between "commercially led" growth in the south and more "industrially based" growth in the Yangtze needs to be explored more fully.
  23. Jacobs and Hong, "Shanghai – Regional, National or International Centre?" p. 20.
  24. Liu Guogang, "Shanghai – Moving Toward Becoming a Great Internationalized Metropolis," pp. 13-14.
  25. *Ibid.*
  26. Jacobs and Hong, "Shanghai – Regional, National or International Centre?" p. 21.
  27. *Ibid.*
  28. "Dukedom economies" (*juhoushengji*) exist when local governments seek to maximize their own economic interests by imposing taxes, blockades and other arbitrary practices. The central authorities may be reluctant to intervene, or may not realize the scale of the problem. For Chinese views on this subject, see Christine Wong and Dai Yuanchen, "The Formation of 'Dukedom Economies' and Problems of Market Development in China," *Chinese Economic Studies*, vol. 25, no. 4 (Summer 1992): p. 94.
  29. Liu Guogang, "Shanghai – Moving Toward Becoming a Great International Metropolis," p. 15.
  30. *Economic Reporter*, no. 7, 1993, p. 11.
  31. The figure of 25 percent was obtained from David Zweig in a personal conversation. For more on rural industry, see his various writings: "Reaping Rural Rewards," *China Business Review* (November–December 1992): pp. 12-17; "Rural Industry: Constraining the Leading Growth Sector in China's Economy," in Joint Economic Committee of the U.S. Congress, *China's Economic Dilemmas in the 1990's: The Problems of Reforms, Modernization, and Interdependence* (Washington: USGPO, April 1991), pp. 418-436. See also his unpublished paper, "Trade and Investment on the China Coast: Understanding a 'Developmental Community' in Rural China." (For complete reference see endnote 38.)
  32. *Xinhua Overseas News Service*, 6 October 1993 (FBIS-CHI-93-192, 6 October 1993), p. 47.
  33. "Spotlight—Jiangsu Province," *China Trade Report*, July 1993, p. 8.

34. *Ibid.*
35. *Ibid.*
36. *Ibid.*
37. *Ibid.*, p. 9.
38. David Zweig, "Trade and Investment on the China Coast: Understanding a 'Developmental Community' in Rural China" (unpublished paper presented at the Annual Meeting of the Association for Asian Studies, Los Angeles, 25-28 March 1993).
39. "Spotlight—Jiangsu Province," *China Trade Report*, August 1993, p. 8.
40. *Renmin ribao* (People's Daily), Overseas Edition, 16 September 1993, p. 2 (FBIS-CHI-93-192, October, 1993), p. 45.
41. *Ibid.*
42. *Ibid.*, p. 46.
43. *Ibid.*
44. Jacobs and Hong, "Shanghai – Regional, National or International Centre?" pp. 9-12; 21-23.
45. Jacobs and Hong, *Ibid.*, p. 24.
46. *Ibid.*
47. Jacobs and Hong, *Ibid.*, p. 25.
48. *Ibid.*
49. *Ibid.*
50. *Economic Reporter*, no. 7, pp. 9-10.
51. World Bank, *China: Reform and the Role of the Plan in the 1990's*, Sections 3 and 5.
52. "Yangtze River Valley: A Soaring Dragon," p. 19 (see note 11).
53. "Blueprint for Yangtze Valley Progress in 90s," p. 14, (see note 6).
54. Morgan Stanley, *China!*, p. 15.
55. See John Fitzgerald, "Reports of My Death have Been Greatly Exaggerated – The History of the Death of China" (unpublished paper, 25-26 October, 1993); and David S. G. Goodman, "Provinces Confronting the State?", in Kuan Hsin-chi and Maurice Brosseau (eds.), *China Review, 1992*, Chinese University of Hong Kong, pp. 2-19.
56. On this point, see Joseph Levenson, "The Province, the Nation and the World: the Problem of Chinese Identity," in Levenson (ed.), *Modern China: An Interpretive Anthology* (New York: Macmillan, 1971), p. 57. Also Fitzgerald, "Reports of My Death," pp. 11-20.
57. Christine Wong and Dai Yuanchen (eds.), "The Formation of 'Dukedom Economies' and Problems of Market Development," p. 5.

58. Seiichi Nakajima, "Obstacles to Growth of the Chinese Economy," *China Newsletter*, no. 106, JETRO, September – October 1993, pp. 2-10; World Bank, *China, Reform and the Role of the PRC in the 1990s* (1992); Morgan Stanley, *China! Autumn 1993*.
59. Stephen Perry, "Shanghai's Two Aces," *China-Britain Trade Review*, January 1992, p. 7.
60. "Spotlight—Energy," *China Trade Report*, July 1992, p. 8.
61. This statement was attributed to Chen Yun, 1982.
62. See Samuel P. Huntington, "The Clash of Civilizations?", *Foreign Affairs* (Summer 1993): pp. 22-49. According to Huntington, in the post-Cold War twenty-first century, "The clash of civilizations will dominate global politics. The fault lines between civilizations will be the battle lines of the future."