CHAPTER 4

REGIONALISM IN CHINA – THE PROVINCES IN CONCERT

'Regionalism' often has negative connotations when used within the borders of one country. However, as seen in the previous chapters of this work, the term "localism" has been used to denote the conflicts of provinces with the central government and "provincialism" to refer to the competitive aspects of inter-province relationships. In this work, the term "regionalism" has been chosen to refer to inter-province cooperation, in a reflection of the positive connotations that the term holds as used in international relations. Regionalism here, will thus refer to those instances when provinces work in concert with each other toward a particular goal, and sometimes in contradistinction to the central government or to other groups of provinces. A region can be formed based on commonalities in attitude, orientation, behaviour and expectations of its constituents.¹ In this work, it is such like-minded provinces that form a 'region' either in reality or potentially, and hence the term 'regionalism.' Groups of provinces have also been referred to as 'regions' based on other common attributes such as geography² or for the sake of economic analysis based on a variety of indicators. Väyrynen defines a "concert" in international parlance as "a political arrangement between nonallied states that possess a significant interest in, and capacity to, reduce the level of international conflict in their region by their common actions without resorting to mutual competition or free-riding."³ Replacing the terms "states" and "international" by "provinces" and "inter-provincial" conflict respectively, this chapter will attempt to show how, certain regional groupings, such as the Pearl River Delta economic region (PRD) and the Yangtze River Delta economic region


(YRD) function today and how they might in future possibly take on "political" characteristics. These groupings are trying to reduce the level of intra-regional conflict and increasingly acting in concert to achieve, as Väyrynen says, "common goals and policies" while simultaneously pursuing "their own specific interests." It is also important to note the distinction between regionalism and regionalization. The former refers to those state-led projects of cooperation that emerge as a result of intergovernmental dialogues and treaties while regionalization refers to those processes of integration which come from markets, from private trade and investment flows, and from the policies and decisions of companies rather than as a result of the predetermined plans of national or local governments. Regionalization in this context does not necessarily entail any specific kind of administrative region as, for example, the PRC's provinces or counties, or its special economic or development zones. Indeed it could refer to any or all of these. Rather, regionalization refers to the development of the economy through cooperation, exchange and the operation of market forces in localized economies. This process is described as regionalization because besides spatial development, there is equal emphasis on ensuring that economic management is based on economic and not administrative or political grounds. In this study, the term regionalism is used under the assumption that projects of integration are still provincial government- or central government-driven. However, as will be evident in this chapter, regionalization as defined above has gained increasingly in strength over the years and could conceivably play a greater role in increasing inter-provincial cooperation. What Väyrynen's ascribes to regionalization in the international context as increasing economic interdependence and cultural links as well as improving institutional links and

4 Ibid.
6 David S G Goodman, "Political Perspectives," in David S G Goodman (ed.), China's Regional Development (London and New York: Routledge, 1989), p. 20. Regionalization is necessarily entailed by a programme of decentralization, for without it the latter cannot work efficiently. It too creates for the CPC problems of control, not least because the regions in question are economically determined and not the result of political or administrative decision.
political trust are perhaps increasingly more evident and important to regional groupings within China as exemplified by the PRD and YRD. Economic regionalization seems to depend on both political decisions at the higher levels of regional authorities as well as on local decisions by firms.⁷

Some of the characteristics that define regionalism between sovereign nations might also hold true for the formation of regional blocs of provinces within large countries such as China. For example, a regional trade arrangement (RTA) can influence the welfare of members by allowing firms to realize economies of scale. While there is a possibility of discrimination against countries/provinces not members of the regional bloc, regional arrangements can induce members to undertake and consolidate economic reforms and these reforms could encourage multilateral openness – or as in the Chinese case, closer integration of the national economy. Indeed, the evidence suggests that in preferential trade arrangements (PTAs) trade flows have tended to increase among member states, even if they are not located in the same geographic region. The Chinese government as well as the provinces themselves, therefore, need to consider if encouraging such regionalization within the country is not also a step toward increasing economic integration, if it is not a step up from the idea of waiting for development to spread inwards from a few provinces on the coast.

There are of course limits to this comparison, not least, because the debate is still ongoing as to whether or not regionalism will speed up or hold back multilateral trade liberalization. It might thus be that the formation of blocs of provinces can delay or inhibit the integration of the national economy. Indeed, the question needs to be asked if the quick demise of the regional associations of the 1950s in China might also be attributed to this factor among others. Either way, the comparison raises interesting questions for the nature of regional bloc formation within a country, especially one as large as China and with such wide regional

⁷ See Väyrynen, n. 3, pp. 39, 43.
variations. Increased inter-provincial trade based on the principles of comparative advantage would mean that in the long run, rather than China having 31 provincial economic units, it would have a smaller number of larger cellular units formed by increased contacts between a strong central locus and its local hinterland. This is, in fact, largely borne out by the formation of the economic regions.

Whereas, in the cases of the PRD and the YRD, the concerned provincial authorities have a very large say in the running and direction of their development, the Western Region, is still largely depends on a strong central role in directing its development. This chapter seeks to examine the factors responsible for the creation of the economic regions and whether there are tendencies towards competition between economic regions. Further, it seeks to draw out the larger implications of the formation of economic regions, for the central government in China.

The Rationale for Regions in China

In terms of natural geography, China falls into several large regions. Skinner observes with respect to provinces that it was “methodologically indefensible and generally misleading” to employ the province as a unit of comparison for urban studies or for studies of socioeconomic space more generally. From this perspective, the only meaningful way to analyze spatial aspects of economic development was to seek out trans-provincial ties or formal similarities among areas within adjacent sets of provinces.

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8 All inferences on RTAs used here are drawn from Edward D Mansfield and Helen V Milner, "The New Wave of Regionalism," International Organization, Vol. 53, No. 3;Summer, 1999, pp. 594-95, 598.


Many studies of the Chinese economy tend to categorize provinces simply into coastal versus interior groups, since historically there has been a significant divergence in the growth rates between these. However, this dual classification or the classification more specifically into coastal, central and western regions may both be insufficient in that they hide considerable individual heterogeneity within the categories which in turn is partly responsible for the shortcomings of several studies on China's regional inequality.\textsuperscript{11} The income gap between the group average and the richest coastal province, Shanghai, and the poorest coastal province, Hebei, has been relatively constant over time appearing to contradict the idea that the coastal provinces act as “a single convergence club.”\textsuperscript{12} If convergence refers to the reduction of inter-provincial income differences, then it appears that there is relatively little overall convergence among a group of 28 provinces (excluding Hainan, Tibet and Chongqing) when examined over the period 1952-1997. Furthermore, even as possible regional growth clubs, the coastal provinces and interior provinces do not to converge within each group.\textsuperscript{13} Empirical findings by Pedroni and Yao in fact, contradict the presumed presence of a separate coastal convergence club regardless of which combination of coastal provinces was considered.\textsuperscript{14} Investigating for convergence properties for the remaining 18 interior provinces (excluding Tibet), led to the possibility that while the interior provinces as a whole did not represent a convergence club, if there was a convergence club, it was likely to lie among some subset of these interior provinces. Therefore, the interior provinces were subdivided into various smaller geographic subsets, such as the six central interior provinces, the central interior plus northeastern provinces, the central interior plus southwestern interior provinces, the six northwestern interior provinces, and the interior provinces minus the northwestern interior provinces. None of the groupings except for the

\textsuperscript{13} Ibid.
\textsuperscript{14} Two groupings were considered -- one, of all 10 provinces, and another, including only the 6 non-metropolitan central coastal provinces. Pedroni and Yao, \textit{ibid.}
northwestern provinces showed a degree of convergence. Thus, a geographically-based convergence club among the Chinese provinces during the post-reform period is at best evident only in the more geographically isolated provinces of the northwestern interior. Investigating various province sub-groupings based on the extent to which preferential open door policies have been extended in the post-reform period, led to similar conclusions. If a policy-based convergence club is sought in the post-reform period, it does not exist among the most open coastal provinces nor is it among the least favored of the interior provinces. Rather, it appears to be among the middle level provinces, which are neither wide open to international trade and investment nor completely shut off from international trade and investment. 15 Pedroni and Yao’s primary results indicate that although at least a significant subset of China’s provincial incomes appear to have been converging toward one another during the pre-reform period, subsequent to the reforms initiated in 1978, this no longer appears to be the case. Rather, per capita incomes in the majority of provinces appear to be diverging from one another since 1978. 16

The point of this discussion is to emphasize that the rationale for regions in China based on economic indicators is still rather limited even after the operation of market forces for some two decades. Such rationale in economic terms might eventually emerge with time but could just as importantly be dependant on deliberate agglomeration of provinces in particular groupings.

The zones for regionally-based growth were the most far-reaching element in the strategy stressing comparative advantage and contained two kinds of reforms with regional implications — first, large-scale national planning based around macro-regions composed of several provinces or parts of provinces and second, the creation of economic zones focused on “key” or “central” cities. The division of the nation into such regions generated the same sort of rivalry as existed between the provinces as each region laid claim to special features and asked for the concomitant privileges for their own areas. For example, in operating region-wide power grids, the energy-rich northwest was unwilling to share its resources with

15 Pedroni and Yao, ibid.
16 Ibid.
the fuel-starved neighbouring regions. The macro-regions are thus, seen as both a threat and an opportunity by regional elites.\(^{17}\)

The central government has engaged in regional planning to ensure the achievement of economic growth objectives, social development objectives and environmentally-sustainable development.\(^{18}\) However, as the central government no longer has the previous mechanism of income redistribution at its disposal, it has to turn to other forms of regional policy to redress regional disparities. Experiments with new regional forms were designed to both overcome existing barriers to inter-provincial economic activity, and to create new centres of economic activity. A large part of this process was however, due to the interaction between the new approach to regional development and other economic reforms and was dependent on increasing trade between provinces. For example, the establishment of a number of special economic regions was aimed at facilitating economic activity that cut across provincial administrative boundaries to thus encourage inter-provincial linkages.\(^{19}\) As early as 1980, in accordance with a State Council regulation, the problems of inland provinces was sought to be resolved by linking them with the relatively well-off coastal provinces.\(^{20}\) Beginning with the 7th FYP in 1986, and with increased emphasis in the following FYPs, the focus of central-regional policy shifted in right earnest from the coastal/central/western divide to the importance of what were called the Greater Regions, most of which included coastal as well as inland provinces. These regions were expected to provide the coordination between richer and poorer provinces by facilitating horizontal links, division of labour and making use of the complementarities.


\(^{18}\) Wang Huijiong, Li Shantong and Godfrey Linge, “Regional Planning: Developing an Indigenous Framework,” in Godfrey Linge (ed.) *China’s New Spatial Economy: Heading Towards 2020* (Hong Kong: Oxford University Press, 1997), p. 43. However, Wang et al, note that sectoral objectives of development can often come into conflict with regional goals such as these.


among them. In policy terms, this was a major readjustment from encouraging unequal development during much of the reform period to the demand for coordination and equalization. In practical terms, however, this policy showed little effect, because the Greater Region had no administrative power and could not enforce regional integration vis-à-vis provincial governments and nor did it reduce the differences in economic development between coast and inland.21

The Shanghai Economic Region was one such special economic region established to facilitate economic relations between Shanghai and the neighbouring provinces of Jiangsu and Zhejiang. Similarly, Gansu was “teamed up with” (jie duizi) Tianjin, Qinghai with Shandong and Xinjiang with Jiangsu in the hope that the coastal partners would actively help their inland counterparts to develop their economies.22 In 1990, Zou Jiahua, minister in charge of the State Planning Commission, approved a regional economic cooperation plan proposed by five areas in northern China, and recommended cooperation as a solution to the problems faced by small, resource-starved areas.23 The Pudong economic zone in Shanghai, for example, attracted immediate interest from neighbouring areas such as Suzhou, Wuxi, Changzhou and Nantong.24

Currently, the number of inter-provincial and other regionally based organizations in China amounts to more than one hundred, among which some of the older ones include the Regional Association of Northwest China, the Regional Economic Coordination Association of Southwest China, and the Northeast Economic Zone Coordination Office.25 At the China International Tourism Exchange Fair held in


23 Chien-min Chao, “T'iao-t'iao versus K'uai-k'uai: A Perennial Dispute Between the Central and Local Governments in Mainland China,” in Bih-jaw Lin and James T Myers (eds.), Forces for Change in Contemporary China (Taipei: Institute of International Relations, National Chengchi University, 1992), pp. 168-69.

24 Ibid., p. 169.

Shanghai in 2004, for example, the regional tourism association organization of 16 cities in northwest China came together for the first time to introduce "Northwest Uniqueness" – plans to market jointly places of tourist interest in the region. In 1999, the People's Daily reported that "stunning results" had been achieved in economic cooperation in the region by the Economic Coordination Association of Southwest China. Formed in 1984, and including the provinces of Sichuan, Yunnan, Guizhou, Guangxi and Tibet as well as the cities of Chongqing and Chengdu, the Association aimed at "economic association and coordination and expansion of domestic and foreign opening up" in order to achieve economic prosperity for its members. This organization soon went beyond the central government's original purpose of enabling the transfer of technology and knowledge from the eastern provinces by moving on to lobby collectively for increased state support for the region. This is perhaps not surprising given the antecedents of this organization in the opposition to the tidu kaifa lilun of the central government that stressed economic advancement of the coastal regions first. Scholars from the Sichuan Academy of Social Sciences had invited local administrators and scholars from neighbouring provinces to form a semi-governmental organization to articulate the demands of the region. Later, under the Great Southwest Development Strategy, Sichuan also began to attract investments from other provinces in the region. At the same, time this has not prevented Sichuan from investing in the coastal provinces with considerable investment flowing in particular to Beihai in Guangxi.

Meanwhile, the Economic Technical Coordination Council of the Central Area actually consists of the poorer border cities and regions of the provinces of


Shandong, Shanxi, Hebei and Henan and not the provinces in their entirety, indicating their level of intra-provincial disparities.\(^{30}\) And while Jiangsu and Zhejiang provide the natural economic hinterland for Shanghai, inter-regional trade has been obstructed by the existence of territorial administrative borders and complicated bureaucratic responsibilities instead of facilitating the creation of natural economic regions. In many ways, the Shanghai Region increased the administrative distance between the centre and power holders, as it encouraged and facilitated market decentralization and the devolution of power to producers and managers,\(^{31}\) until a Shanghai-centred economic zone was reborn in the form of the YRD (see below).

Despite these efforts to sponsor inter-provincial trade in the 1980s, the process was not a complete success. Some of the causes for provincialism as outlined in the last chapter acted as powerful forces preventing the emergence of comparative advantage and economies of scale. Besides infrastructure limitations and the dual price system, local authorities under pressure to collect revenue though taxes on profits, sought to strengthen local economic bases instead of adhering to the logic of regional comparative advantage.\(^{32}\) It was not until the 9th FYP in 1996 that Beijing (which had by then recognized seven major economic regions) acknowledged this failure by stipulating that these regions should concentrate on developing their comparative advantages rather than pursuing regional equalization – a return thus to the original coastal development strategy.\(^{33}\)

At this stage an example of regionalism in the international context might be instructive. The 2001 APEC Summit at Shanghai saw efforts to stimulate a flagging liberalization agenda and to show leadership in promoting regional recovery. One of the key outcomes of the Shanghai Summit, as reflected in the APEC Economic Leaders’ Declaration and a statement by APEC economic and

\(^{30}\) Liu, n. 28, p. 155.

\(^{31}\) See Breslin, n. 9, pp. 83-84

\(^{32}\) Ibid., p. 115.

\(^{33}\) Hendrischke, n. 21, p. 6.
foreign ministers was the ‘Pathfinder’ approach. This initiative accepted the principle of pro-reform economies creating voluntary groupings to implement trade liberalization initiatives ahead of other economies. These pathfinder groups would demonstrate the benefits of liberalization while pressuring lagging economies to follow suit. 34 A description of the subsequent Pathfinder problems, helps provide some clues to the problems of adopting a policy of clustering several provincial economies together, each of which had a voice of its own.

The so-called ‘Buick group’ (Australia, Canada, Hong Kong, New Zealand, Singapore and the United States) have been the main drivers of the APEC process but progress has remained difficult in the face of a less decisive stance among certain members such as Malaysia that have not been enthusiastic about the Pathfinder initiative since it reduced the influence of smaller members and Indonesia and Thailand that have exhibited greater economic ‘nationalism’ since the Asian financial crisis. 35 The risk also existed that trade agreements among ‘pathfinders’ could fracture the larger grouping or indeed marginalize it as pro-liberalization members focus their energies on other liberalization efforts. Further, initiatives independent of the larger grouping could emerge also from the non-pathfinder group as seen in the rebirth of Malaysia’s East Asia Economic Caucus concept in the ‘ASEAN plus Three’ framework involving ASEAN economies in closer economic interaction with China, Japan and South Korea. 36 There are several permutations such regional groupings can take depending who the driving forces are and what their expectations are from the grouping.

In the context of this thesis, the relevant question is whether China is adopting a Pathfinder approach in its plans for regional economic areas within the country? While provinces-based economic regions are slowly giving way economic regions

35 Ibid.
36 Ibid.
based on major growth centres such as the PRD, the YRD and the Bohai Rim, a kind of Pathfinder approach appears to be in operation. Indeed, it looks as if a combination of both province-based and growth centre-based approaches is what is essentially in place at the moment, with the former system still the major way forward for economically weaker provinces in the interior. There is still however the possibility that some of the problems mentioned above, might occur in China. Indeed, problems such as resistance by some provinces either individually or as a group to the initiatives of other provinces have already taken place. The trend of some provinces especially in the interior, to create unique identities for themselves argued in the previous chapter might be considered a case in point.

Continuing with growth centres-based economic regions, it appears that the inability of the centre to dictate regional economic policies and the strong economic role of provinces are behind this regional planning initiative. Focusing on smaller trans-provincial economic regions growing out of economic interchange between sub-provincial regions with specific economic advantages, these regions perhaps also reflect a growing strength of particular provinces – a strength large enough to initiate the growth of economic regions based on their provincial centres of power as the core. Indeed, as Hendrischke et al, point out, the development of these economic regions is less a matter of central planning than a concern of the provincial governments involved. Regional economies similar to the ones mentioned above are expected to develop along railway lines and transportation routes between northern Liaoning, the central part of Jilin and the southwestern part of Heilongjiang, along the middle reaches of the Yangtze River and along the Longhai railway line through parts of Jiangsu, Henan, Shaanxi and Gansu.

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37 It needs to be noted that the Bohai Rim is organized differently from either the PRD or YRD which have clearly identifiable core cities. The Bohai Rim however, comprises 13 major cities of varying sizes, including Beijing and Tianjin and those of its three constituent provinces. Liu Yi, Zhang Lei and Godfrey Linge, “The Bohai Sea Rim: Some Development Issues,” in Linge, n. 18, p. 123

38 Hendrischke, n. 21, p. 7.

39 Ibid.
The formation of these inter-provincial economic links is important because economically they grow out of sub-provincial economic synergies and rely on inter-provincial coordination for their administrative purposes. The central government's role in this is only one of setting the macro-economic parameters, including large-scale infrastructure planning to facilitate such synergies. There are also indications that, with increasing inter-provincial and international integration, provinces might no longer have the size and scope to provide effective economic and regulatory coordination, thus creating a role for larger regions.  

The concentration of major industries in certain provinces indicates that the formation of clusters might well be on its way. To go by experiences from other parts of the world, such cluster formation helps the home provinces in the long run as weaker competitors pull out of those industries. It is important to note too that since they lack major urban centres of their own, interior provinces are gradually being brought within the orbit of the expanding metropolitan economies along the coast. The poorer provinces already face the problem of their citizens becoming increasingly dependent on opportunities in other prosperous provinces. However, as labour costs in the coastal provinces have risen significantly, there are now two opposite flows between the coastal provinces and central provinces. Labour has been flowing from the central provinces to the coastal provinces, and capital is now beginning to flow from the coastal provinces to the central provinces. It must be emphasized however, that until China's transportation system is significantly improved to give the central provinces much easier access to the ports, this type of capital inflow into the central provinces will be temporary. Nevertheless, the possibility exists that these flows may, in fact, aid

40 Ibid., p. 2.
41 Ibid., p. 12.
the creation of supra-provincial projects, with possibly the locus of political power also drifting toward the economic power centre.

As Kenichi Ohmae notes, a nation-state far from being a single economic unit is actually "a motley combination of territories with vastly different needs and vastly different abilities to contribute (to the inter-linked global economy)." From a regional economic perspective, provinces increase transaction costs and set up real barriers to the free flow of goods, services, people and capital. In fact, current patterns appear to confirm the general hypotheses and regional framework developed by William Skinner in his analysis of urban and regional development in late Imperial China. In this study of China's spatial organization, Skinner modeled the intensive internal operations and external relations of large territorial units known as macro-regions - nine in all - made up of nested clusters of marketing centres. Physiographical factors determined the shape of the macro-region and the dynamism of each regional system and sub-system was indicated by market relationships reflecting the potential for communications, production and exchange in each.

The fact that China's leaders often use the regional framework in assessing the current state and the future of reforms further substantiates the idea of regions. For example, during a visit to Guangdong in 2005, Prime Minister Wen Jiabao said that the eastern coastal areas had to take the lead in realizing the country's modernization and in building a prosperous society, given their advantages of

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45 Quoted in Carl Grundy-Warr and Martin Perry, "Economic Integration or Interdependence? The Nation State and the Changing Economic Landscape of Southeast Asia," in Leo van Grunsven, _Regional Change in Industrializing Asia: Regional and Local Responses to Changing Competitiveness_ (Singapore: Ashgate, 1997), p. 213.

46 Fitzgerald, n. 10, pp. 13-14; Hendrischke, n. 21, p. 4.

47 According to Johnston, central government officials developed the regional approach to reforms after the 3rd Plenum of the 11th Congress in 1978 with the aim of building a political coalition to initiate social changes. M Francis Johnston, "Beyond Regional Analysis: Manufacturing Zones, Urban Employment and Spatial Inequality in China," _The China Quarterly_, No. 157, March 1999, p. 3.
geographic location, economic strength, sound infrastructure, a high level of openness, and highly developed science and education sectors. Wen called on the coastal areas to both capitalize on the opportunities as well as face up to the challenges.48 Similarly, the establishment of offices or branches of national level bodies such as the China People's Bank in key regional cities rather than in every provincial capital also reinforces the idea of regional blocs. Similarly, in 2006 the central government announced the setting up of five regional supervision centres to improve its capacity to deal with serious environmental problems. The centres while located in five provincial capitals were designated region-wise - the East centre in Nanjing, Jiangsu; the South centre, in Guangzhou, Guangdong; the Northwest centre, in Xian, Shaanxi; the Southwest centre, in Chengdu, Sichuan; and the Northeast centre, in Shenyang, Liaoning. The centres were necessitated since provincial environmental protection bureaus had no jurisdiction outside their boundaries and were unable to deal with instances of environmental pollution or accidents that had their origins in other provinces. Also, it was quite often the case that bureaus yielded to local pressures in conflicts between development and environmental protection. The regional centres would supervise local environmental protection bureaus, coordinate trans-boundary issues, investigate serious accidents and deal with emergencies, and were accountable to the State Environmental Protection Administration at the centre.49

Classifying Provinces

Depending on the issue or the time period under discussion the boundaries of the regions or the provinces that fall under a particular region have varied in different

48 "China's eastern coastal areas urged to take lead in reforms: premier," People's Daily, 14 September 2005,

studies of post-1949 China. For example, there are ten provinces (excluding Hainan) that lie along the coast of China, but a number of differing classifications exist for coastal provinces. Guangxi Autonomous Region along the southern coast which is one of the 12 provinces that fall under the Western Development Strategy (WDS) is sometimes considered under the coastal designation. Similarly, Liaoning along the northeastern coast is sometimes excluded from the coastal grouping and classified along with the other interior Manchurian provinces of Heilongjiang and Jilin, on the basis of a common heritage of heavily industrialized Soviet-style economies in the pre-reform period and a tendency to lag behind in the reform period. Finally, Tianjin and Shanghai are also occasionally excluded from the coastal group since they represent metropolitan areas with other distinctive features. Similarly, the Central Region and central belt are differently defined, with the former consisting of Hubei, Hunan, Henan, Sichuan, Shaanxi, Anhui and Jiangxi, and the latter consisting of these seven provinces as well as Heilongjiang, Jilin, Nei Mongol and Shanxi.50 And, a province like Inner Mongolia has at various times belonged separately to the Northeast Economic Region, North China Economic Region, and the Northwest Economic Region.51

Besides the need to develop strategies for economic development, the regional classifications in Table I have also been based on a variety of motives such as the need to ensure political control and the mobilization of military personnel.52 A brief overview of the key classifications of provinces is given below with the focus in subsequent sections on the functioning of such groupings in the 1990s in terms of their consequences for inter-provincial relations.

50 Zhao Ling Yun, “Hubei: Rising Abruptly over Central China?,” in Hendrischke and Feng, n. 21, footnote 9, p. 177.
Table 4.1

Changes in China’s Administrative-Economic Regions (1949-1990s)

<table>
<thead>
<tr>
<th>Stage</th>
<th>Year</th>
<th>Key Measures</th>
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| 1     | 1949- | 1. Establishment of 6 Greater Administrative Regions (GARs, Economic Regions)  
2. Inner Mongolia as a self-governed territory  
3. Tibet |
|       |      | a. Huabei  
b. Dongbei  
c. Huadong  
d. Zhongnan  
e. Xinan  
f. Xibei |
| 2     | 1954- | 1. Reduction in number of provinces from 49 to 32 (inclusive of Taiwan)  
2. Abolition of 6 GARs and Tibet |
| 3     | 1958- | 1. Establishment of 7 Economic Development Coordination Areas  
2. Establishment of Economic Coordination Commission  
3. Establishment of the Economic Planning Office |
| 4     | 1961- | 1. Establishment of 6 Economic Coordination Areas  
2. Abolition of Economic Coordination Commission  
3. Establishment of the Central Bureau of Ministry of Civil Affairs |
| 5     | 1970- | Establishment of 10 Economic Coordination Areas |
| 6     | 1978- | Establishment of 6 Primary Economic Development Systems |
| 7     | 1982- | Division of the country into Coastal and Inland Areas by the National Planning Committee and the Bureau of Statistics |
| 8     | 1981-85 | Establishment of 7 Economic Coordination Areas  
a. The Huabei Areas (1981)  
b. The Dongbei Area (1983)  
c. The Huadong Area (1983)  
d. The Xinan Area (1984)  
e. The Xibei Area (1984)  
f. The Zhongnan Area (1985)  
g. Shandong Area (1985) |
| 9     | 1986- | Division of the country into the Eastern, Central and Western Regions under the 7th FYP |
| 10    | 1990s | Establishment of 7 major Economic Development Regions |

Combining key geographical and economic characteristics of China, Démurger et al, have classified the provinces in six regional groupings that they use to analyze the post-1978 period:\(^{53}\)

1. The highly industrialized metropolises of Beijing, Tianjin, and Shanghai\(^{54}\) that are the richest pockets of China and have had high growth in the 1990s. Over 70 per cent of their population lives within 100 kms of the coast or navigable waters.

2. The northeastern provinces of Heilongjiang, Jilin, and Liaoning, collectively called Manchuria that formed the industrial heartland of China in 1949.\(^{55}\) During the central planning period, their early start in industrialization was strengthened, and of all Chinese provinces it was they that most resembled the Soviet Union in industrial organization and production structure. In the national ranking of GDP per capita (after omitting the three metropolises) Heilongjiang and Liaoning ranked first and second, respectively, in 1978 and ranked seventh and fifth, respectively, in 1998. Heilongjiang and Liaoning have been termed the “traditionally rich provinces.”

3. Hebei, Shandong, Jiangsu, Zhejiang, Fujian, Guangdong, and Hainan (separated from Guangdong in 1988), form the coastal provinces. These seven provinces have over 80 per cent of their population living within 100 kms of the sea or navigable rivers and have grown the fastest of the six groupings in the 1978-98 period at an annual average of over 10 per cent. Zhejiang and Guangdong have as a result soared to the top of the GDP per capita ranking (not counting the metropolises), from fourth and sixth,

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\(^{54}\) Chongqing has been included under Sichuan province.

\(^{55}\) This was a result of the Japanese control of the region and its economy that began in 1895, after defeating China for control of Korea. They began their economic domination from 1905 by taking over Russian economic interests, later turned Manchuria a puppet state after 1911 and finally in 1935, formally annexed the region.
respectively, in 1978 to first and second, respectively, in 1998. Démurger et al, term Zhejiang and Guangdong the “nouveau riche provinces.”

4. The central provinces comprising Shanxi, Henan, Anhui, Hubei, Hunan, and Jiangxi form the agricultural heartland of China with a population density almost twice that of the northeastern and southwestern regions. The Huang He and the Yangtze and their many tributaries supply over half the population with convenient water transportation.

5. Inner Mongolia, Shaanxi, Ningxia, Gansu, Qinghai, Xinjiang, and Tibet in the northwest with the center of the landmass some 1,400kms from the coast are extremely isolated in relation to the rest of the country. This region is more arid and steeper compared to the four previous groupings and with only eight per cent of the land arable, this region has the lowest population density in China. A large number of the region’s residents are of Turkic origin and are practicing Muslims, while the Han form minorities in Xinjiang and Tibet.

6. The southwestern provinces of Sichuan, Yunnan, Guizhou, and Guangxi have rainfall and temperature conditions that are ideal for crop cultivation, but with the terrain too mountainous, the proportion of arable land stands at only 10 per cent. Further, since they lack the mineral resources of the northwestern provinces, the southwestern provinces also had the lowest GDP per capita in 1978, and have had the lowest growth rates in the period of economic reforms. A significant proportion of the population in this region which has the second-lowest population density in the country is again non-Han.

Wing Thye Woo uses another classification based on economic differences to group 19 of China’s 30 provinces (not including Chongqing) under four geographical groupings

1. the five fast-growing coastal provinces of Fujian, Guangdong, Jiangsu, Shandong, and Zhejiang;

56 Woo, n. 44, p. 245.
2. the eight agricultural central provinces of Anhui, Henan, Hubei, Hunan, Jiangxi, Shaanxi, Shanxi, and Sichuan;
3. the three industrial northeastern provinces of Heilongjiang, Jilin and Liaoning; and
4. the three prosperous cities with province-level status, Beijing, Shanghai, and Tianjin.

The remaining 11 provinces – Gansu, Guangxi, Guizhou, Hainan, Hebei, Inner Mongolia, Ningxia, Qinghai, Tibet, Xinjiang, and Yunnan – do not fit the criteria, in the broad sense, of being geographically similar or contiguous, having similar economic structures, and being at similar development levels but vary widely in economic characteristics. Landlocked Xinjiang for example, has per capita income higher than the national average, while landlocked Gansu and Guizhou are the two poorest provinces in China.\textsuperscript{57}

Under the 7\textsuperscript{th} FYP classification, the eastern zone comprised the three municipalities of Beijing, Shanghai and Tianjin, the eight provinces of Hebei, Liaoning, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong and Guangxi. The central zone was made up of the eight provinces of Shanxi, Jilin, Heilongjiang, Henan, Anhui, Hubei, Hunan and Jiangxi and the autonomous region of Inner Mongolia. The west zone included the six provinces Gansu, Shaanxi, Sichuan, Guizhou, Yunnan and Qinghai), and the four autonomous regions of Ningxia, Xinjiang and Tibet.\textsuperscript{58} Next, the 8\textsuperscript{th} FYP (1991-95) witnessed a short-lived division of the country, drawn up in the aftermath of the Tiananmen Incident by the conservatives led by Chen Yun, emphasizing the reduction of disparities between the regions and support for the poorer areas. This division – into the coastal region, the interior, the border ethnic minority areas and poor areas – did not last beyond Deng Xiaoping’s southern tour of 1992, when the reformers regained the upper hand.\textsuperscript{59}

\footnotesize\textsuperscript{57} Ibid., p. 246.
\footnotesize\textsuperscript{58} Yang, n. 20, p. 194.
\footnotesize\textsuperscript{59} Ibid., p. 195.
The 9th FYP (1996-2000) saw a three-way division again, based partly on economic growth centres and generally comprising areas cutting across provincial boundaries.60 –

1. in the Yangtze River valley and along the river – that bring together areas expected to ride on the momentum of the Pudong New Area in Shanghai and the construction of the gigantic Three Gorges Dam project;
2. around the Bohai Gulf including Liaodong and Jiaodong peninsulas, Beijing, Tianjin, and Hebei Province;
3. in the southeastern coastal areas along the PRD and the southeastern areas of Fujian Province – designed to take advantage of the geographical location of neighboring Hong Kong, Macao, and Taiwan and of their high-level of openness;
4. covering parts of the southwest and south including the provinces of Sichuan, Guizhou, Yunnan, and Guangxi
5. in the northeast comprising Liaoning, Jilin, Heilongjiang, and Inner Mongolia
6. covering five provinces in central China of Gansu, Shaanxi, Shanxi, Henan, and Anhui
7. in the northwest (Xinjiang) to bring into play the advantage of being a linkage between East and Central Asia

Such regional growth centres or "growth poles" are expected to create linkage effects for the adjoining areas and beginning with the Pudong area in Shanghai with its task of spurring growth in the Yangtze River Delta (YRD) area. The central government has in addition, targeted cities in the interior with the same aims.61

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60 Wang et al, n. 18, p. 38. Wang et al, have argued however, that given the rivalry between different provinces such regions cutting across provincial boundaries would be difficult to sustain (p. 39).

In addition, the classification of China into several military regions (MR) must also be noted. Before 1985, there were 11 MRs, which were reduced to seven that year. In 2003, it was reported that the Central Military Commission (CMC) had begun efforts to further restructure and streamline the armed forces, an important part of the agenda being the abolition of at least half of the seven military regions, widely seen as remnants from the Maoist era.\(^\text{62}\)

**Historical Background**

Soon after the PRC's founding, the new government returned to the old provincial borders and set up a parallel structure of Greater Administrative Regions (GARs) under the authority of a military party secretary. These six GARs — Huabei, Dongbei, Huadong, Zhongnan, Xinan and Xibei — fulfilled a political role at the time giving the CPC more regional flexibility in consolidating its power. Under the GARS were the autonomous territories of national minorities, provinces and cities with the rank of provinces. Below the provinces came the counties and the cities. This hierarchy, embodied also in the State Planning Commission, was formed in 1952 and had a paralyzing effect on local initiative.\(^\text{63}\) The GARs represented a close relationship between the military headquarters, regional districts and administrative committees, and were soon dissolved in 1954, after the new Constitution came into force and following, among other things, the Party's fear about potential regional power blocs in the making. The party secretary of Dongbei, Gao Gang, was accused in 1954 of "forming an independent — pro-Soviet — kingdom" in the northeast in order subsequently to make a bid for power over the whole country together with Rao Shushi, the secretary of Huadong. Both were purged, in the first top-level purge to take place in the new state. Following


\(^{63}\) Willem van Kemenade, *China, Hong Kong, Taiwan, Inc.: The Dynamics of a New Empire* (New York: Vintage, 1998), p. 262.
the abolition of the GARs, the provinces reverted to being the major political and administrative units below the central government.\textsuperscript{64}

In 1949, half of China's industrial production came from six regions – the Pearl river delta area centred on Guangzhou, the Yangtze delta region with Shanghai as its core, Qingdao-Jinan in Shandong, the Beijing-Tianjin-Tangshan triangle, central Liaoning and south Liaoning.\textsuperscript{65} The Third Front policy was essentially an effort to redress this regional imbalance, with its strong emphasis on investments in the western regions. These investments were made during two periods. In the first period from 1964-66, investments were directed toward Sichuan, Hubei and Gansu, while during the second period, 1969-72, investments were made in Sichuan, Hubei, Shaanxi, Henan and Guizhou.\textsuperscript{66} Third Front projects had authority cutting across functional and regional administrative boundaries, owing to the high level of urgency accorded to the projects and also bypassed normal material allocation procedures, occasionally bypassing provincial governments completely.\textsuperscript{67}

Under the 4\textsuperscript{th} FYP (1971-75), China was also divided into ten economic cooperation zones which were required to establish their own economic and industrial systems "with both different levels and characteristics and mutualities."\textsuperscript{68} Closer to the beginning of the economic reforms, at the National Conference on Learning from Daqing in Industry held in May 1977, Yu Qili, head of the State Planning Commission, described regional development as the second step in a two-step plan following the creation of a 'nationwide, independent, and relatively comprehensive industrial and economic system.' He envisaged regions

\textsuperscript{64} Ibid. and Hendrischke, n. 21, p. 4; Paul Wong, \textit{China's Higher Leadership in the Socialist Transition} (New York: The Free Press, 1976), pp. 221-22.

\textsuperscript{65} Wang et al, n. 18, p. 23.

\textsuperscript{66} Jean-François Brun and Mary-Françoise Renard, "International Trade and Regional Specialization in China," in Renard, n. 42, p. 89.


\textsuperscript{68} Wang et al, n. 18, p. 28.
that would house 'economic systems which vary as regards standards and coordination and have a fairly harmonious development of agriculture, light and heavy industry.' As in previous periods (1949-54, 1961-66), such regions would be groups of three to six provinces each. The Third Front policy principle of self-reliance was coupled here with a strong emphasis on vertical hierarchies, discipline, and central planning and supply. Such a program was clearly at variance with the schemes of comparative advantage and decentralization that would become policy later on.69

In 1978, within a few months of Premier Hua Guofeng referring to a strategy of regional self-sufficiency in an important address, the leadership began to consider just the opposite, namely, a strategy of regional specialization that were as the *Renmin Ribao* reported 'efforts to build various regions along the coast into large, strong industrial areas.' The article further contended that 'because the various provinces are vastly different from one another in resources' there was need for 'effective specialization and coordination.' In 1980, the economist Xue Muqiao, stated, 'We must make use of the strong points of the advanced regions and encourage them to help develop the backward regions.'70 The 6th FYP (1981-85) for the first time in regional planning in China, clarified which provinces fell in coastal and inland areas. The plan stressed greater inter-provincial cooperation in the supply of commodities and goods and encouraged the formation of economic alliances.71

The 1980s were soon witness to the creation of a number of supra-provincial regions, the first such major activity since the GARs were done away with. The reform of the economic structure created tensions between conceptions of natural economic space, and the existing political space. For the more liberal Chinese academics, the solution was to implement a fundamental reorganization of China's territorial administration to reflect and respond to objective economic

69 Quoted in Solinger, n. 17, p. 157.
70 Quoted in Solinger, *ibid.*
71 Wang et al, n. 18, p. 32, 34.
laws. Such a radical reform of territorial organization was never seriously considered, perhaps for the reasons discussed above. Instead, the government introduced a range of new territorial organizations ranging from large multi-provincial macro-regions to development and technology zones within cities and towns. A number of areas were designated for foreign involvement and priority investment including the YRD, the PRD and the Minnan Delta Economic Region in southern Fujian Province. The identification of the Shandong and Liaodong peninsulas as integrated units and development zones, and the encouragement for domestic reasons of the North China Energy Zone, the Shanghai Economic Zone and Huaihuai Economic Region also seemed intended to redress the regional imbalance emerging in the Chinese economy.

Under the 7th FYP (1986-90), the three macro-regions of the Eastern or Coastal Region, the Central Region and the Western Region, were formed each covering vast territories and encompassing massive populations. Each region was to have its own priorities for development during the course of the plan that would benefit the long-term development of the whole nation. Breslin contends that, in reality, rather than setting the agenda for future policy directions, the 7th FYP regionalization was more an official recognition of what had already happened as a result of other economic reforms. The 8th FYP sought to carry forward the agenda of the previous two Plans, in particular encouraging the developed provinces to strengthen their assistance programmes with poorer provinces. The process was carried further in the 9th FYP (1996-2000) and the long-term development programme up to the year 2010 divided the country into seven economic zones. Also part of the agenda was the rationalization of national

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74 Breslin, n. 9, p. 105; Wang et al, n. 18, p. 35.

75 Wang et al, ibid., p. 36.
economic distribution as a means of bringing down the development gaps between the various regions.\textsuperscript{76}

The regional dimension is very important in Chinese economic policy which, even with centralized planning, has always relied on regional components and in the 10\textsuperscript{th} FYP of 2001-05, the authorities' efforts were concentrated more on the western regions.\textsuperscript{77} The 2002 16\textsuperscript{th} Party Congress report thus calls for, "The eastern, central and western regions [to] strengthen economic exchanges and cooperation to complement one another and secure common development so as to form a number of distinctive economic zones and belts."\textsuperscript{78}

\textbf{Inter-Provincial Relationships – A Positive-Sum Game}

Despite inequalities, inter-provincial relationship in the 1980s and 1990s did not represent a zero-sum relationship. It has been argued that between 1979 and 1995 – considered a period of transition from the centrally planned economy to a socialist market economy – the ad hoc and temporary economic and technical cooperation between provinces became more stable and focused on the long-term expanding from industrial projects to infrastructure development.\textsuperscript{79} The gains of some areas were not necessarily at the cost of other areas.\textsuperscript{80}

\textsuperscript{76} \textit{Ibid.}, p. 38. According to Kenichi Ohmae, China’s rapid economic development over the 20 years of reform had resulted in the formation of at least six regional economies with their economic strength even surpassing that of major neighboring countries and regions. Quoted in Kao Charmg, "Economics of a Chinese Federation," \textit{Taipei Times}, 15 April 2003, http://www.taipeitimes.com/News/editorials/archives/2003/04/15/202169.

\textsuperscript{77} Brun and Renard, n. 66, p. 90.


\textsuperscript{79} Wang et al, n. 18, pp. 31-32.

\textsuperscript{80} Breslin, n. 9, p. 106.
As discussed in the previous chapter, competition between the developed and the underdeveloped provinces came to a climax in the late 1980s in the form of industrial protectionism and blockades of raw materials and agricultural products on various inter-provincial borders. There were fears of the balkanization of the Chinese economic system and observers pointed out that there was considerably less economic integration between China’s provinces than between the member states of the European Union. Nevertheless, there was, amidst the commodity wars, actually a steady rise in efforts by local authorities to enhance inter-regional cooperation. Special economic coordination offices were established in each provincial unit to coordinate resource flows and jointly invest in the production of raw materials. In order to obtain the raw materials they needed, most coastal provinces also entered into cooperation agreements with interior provinces.81

While in the last chapter the phenomenon of exit and voice was portrayed as liable to cause inter-provincial friction, there are also potential pluses from the phenomenon. Exit and voice has implications for regionalism in that provinces that are the target of capital exiting from other provinces can use the phenomenon to rework themselves into hubs of regional arrangements beneficial to themselves certainly but also to the provinces that are seeing the capital flow. If the latter can be convinced that there are adequate returns for these flows, then such capital would in fact become investments and further, provinces might prefer these to investments (and consequently control) from the central government.

The central government encouraged the process of cooperation and the flow of investments between the coastal and interior provinces in the interest of mutual economic benefits arguing that rising labour costs and land prices, energy shortages and environmental degradation meant that the coastal provinces had to leave labour- and resource-intensive industries to the interior, while they themselves focused more on high-technology and service industries.82 In the early

81 Yang, n. 19, p. 73.
82 Dali L Yang and Houkai Wei, “Rural Enterprise Development and Regional Policy in China,” Asian Perspective, Vol. 20, No. 1, Spring-Summer 1996, pp. 77-78. For more on how the central government actually often forced richer provincial governments into helping economically
1980s, one of the proposals made to restructure Shanghai’s economy was to move its traditional industries out to the neighbouring areas while it focused on high-technology industries and opened up to the outside world to ensure the upgradation of its industries and particularly the export sectors. This policy was called *neilian waiji* or “linking up with neighbours and pushing itself outward.” This aspect of Shanghai’s development strategy has continued into the 1990s.83 Zhejiang too, for example, declared in February 2006, that it was closing down all its collieries over the course of the following two to three years, deciding to rely on larger coal-producing provinces for supplies. Zhejiang took the step due to the exhaustion of local supplies and the low cost-effectiveness of its mining industry and signed long-term contracts with Shanxi and the Inner Mongolia Autonomous Region to ensure stable coal supplies. The province was also encouraging local businesses to invest in mining sectors in its neighbours Anhui, Jiangxi and Shandong.84 Earlier, in 1995, Guangdong had placed a moratorium on the construction of new coal, oil and gas power stations in the PRD, as a way of dealing with environmental concerns. While Guangdong is the site of several new nuclear power stations currently, a large supply of its energy continues to come from thermal power plants,85 which means that like Zhejiang, it too draws considerably on inter-provincial linkages.86

One of the lessons that Hubei learnt from its flawed “Rising Abruptly over Central China” strategy was that for it to improve its economic position, improving relations with neighbouring provinces, was necessary and, in particular, linking up with them to bargain collectively for more investment and equal treatment with

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86 See also Yang, n. 20, p. 201.
the coastal provinces by the central government. In Xian in 2000, meanwhile, at a conference on cooperation and investment, between the provinces in eastern and western China, Guangdong enterprises were the most active in signing contracts with the enterprises from other provinces. In the case of the fund for people relocated due to the Three Gorges Dam, the central government has played an active role in pushing the process forward. By end 2004, some 21 provinces and municipalities, more than ten large and medium-sized cities, and over 50 government departments had donated RMB4 billion in aid and invested over RMB15 billion in the area.

The issue of spillover effects has already been discussed in the last chapter and has been the subject of much debate in the Chinese economic development model but it also now being accepted that such effects have gradually begun to show. The growth of coastal provinces has different effects depending on the grouping of provinces considered. Where the western provinces are concerned, the impact has been found to be positive but non-significant whereas in the case of the central provinces, coastal growth acts positively and significantly. In addition, spillover effects can be observed within coastal provinces. Coastal growth thus appears to benefit inland provinces in an unequal way. Central provinces seem to take more advantages than western provinces from coastal development with the spillover effects more evident for the provinces near Guangdong.

Henan, the single most populous province in China, is beginning to experience significant spillover growth from the booming coastal regions. Third Front enterprises in Guizhou that had switched to consumer goods production after

87 Zhao, n. 50, p. 176.
88 Cheng, n. 1, p. 8.
89 Some 1.2 million people were displaced due to the Three Gorges project nearly 85 per cent of whom were from Chongqing and the remainder from central Hubei. “3 Gorges relocation fund gets big boost,” East Day Daily, 14 March 2005, http://english.eastday.com/eastday/englishedition/delta/userobject1ai935485.html.
91 Naughton, n. 42, p. 83.
relocation to ‘high-tech development zones’ in Guiyang, had by 1993, established links with over 150 ‘window enterprises’ in the open cities along the coast in order to facilitate export-oriented production and attract investment deals. Similarly, there were several inland provinces that invested in the coastal provinces and SEZs to avail of the preferential policies available to the latter. Such “alliance enterprises” (lianheti qiye) accounted for nearly RMB8 billion worth of investments in Guangdong in 1991. Meanwhile, as mentioned in the last chapter, the more developed provinces of the coast are also interested in developing horizontal alliances (hengxiang lianxi) with interior provinces to take advantage of their cheap raw material and lower labour costs. An example of how sub-provincial levels can maintain practical links directly across provincial boundaries is also evident in the Qin-Ba area (three localities in Shaanxi, Daxian in Sichuan, Yunyang in Hubei and Luoyang in Henan). These hold annual economic cooperation meetings to deal with matters of trade and economic cooperation, but there is no over-arching organization. Other examples include the exchange links between Langao County in Ankang prefecture of Shaanxi province and Kunshan in Jiangsu which were set up as part of the central strategy of requiring developed areas in the east to support the backward areas of the interior. Ankang also maintains offices in Wuhan, Shanghai, Shenzhen, Hangzhou and Xian in order to keep an eye on its markets. These various activities involve direct contacts and do not have to be managed through the provincial level of government. They focus entirely on the practical processes of economic interaction; they do not create institutional mechanisms which replace provincial authority, but underline the way in which market integration is encouraging the growth of linkages outside the channels of the administrative hierarchy.

92 Oakes, n. 67, p. 45.
95 Ibid., pp. 96-97.
Ideas too have flown from one part of the country to another and there are several instances of provinces learning from each other. In 1978, as Party Secretary of Sichuan, Zhao Ziyang led a delegation on a visit to Jiangsu to observe how collective rural enterprises were fast replacing SOEs in the local economy. Later, as Premier, Zhao Ziyang’s report on the 6th FYP would lead to the Party Central Committee and the State Council issuing a notice on reforming prefectures that made Jiangsu the first ‘experimental point.’ Following this, in 1983, the Jiangsu First Party Secretary went to Liaoning and another Party Secretary visited Zhejiang to examine the situations in those provinces. Similarly, following Deng Xiaoping’s southern tour, the Shandong Party Secretary ordered a series of surveys and investigations of coastal provinces and cities – Beijing, Dalian, Fujian and Guangdong – to learn from their experiences in promoting foreign economic linkages. Shanghai’s economic reforms in the early 1990s included measures encouraging joint exploration for resources in other provinces through joint investments, sending technicians and skilled workers inland, supporting economic development in the interior by transferring technology and providing technical cooperation and training personnel from the interior in management tasks. Further, at the time, some 80 per cent of Shanghai’s college and university graduates were assigned to different parts of the country.

In 1994, the Ministry of Agriculture launched the East-West Rural Enterprise Cooperation and Demonstration Project to improve economic and technological exchange between the developed provinces and those of the interior. The Project also helped several coastal enterprises to consider proposals to shift inland, was responsible for ensuring that thousands of officials from the interior provinces

96 Hong, n. 29, p. 384.


98 Chung, n. 22, pp. 279-80.

received training in coastal areas and helped involve more coastal officials in work in the interior. Similarly, the exceptional performance of Zhejiang and Shenzhen SEZ, have drawn the interest of other provinces and localities in China and created a desire for emulation. There were suggestions that classes be organized in Shenzhen for cadres from the soon-to-be-opened coastal cities, where Liang Xiang, mayor of Shenzhen and Yuan Geng, leader of Shekou Industrial District, would lecture on the ‘dos and don’ts’ of exceeding the limits of the current system. Zhao Ziyang reportedly urged people from Shanghai to go to Shenzhen to learn how to bring about change on their own turf. This phenomenon was best reflected in a common saying of the time – “Shenzhen learns from Hong Kong, Guangdong learns from Shenzhen, and the whole country learns from Guangdong.”

Using data from between 1949 and 1985, Goodman points out that there were certain feeder provinces – regionally dominant provinces – in different regions of China that supplied a good number of officials to their nearby provinces. These feeder provinces included Liaoning for Northeast China, Shandong and Jiangsu in East China, Guangdong and Hubei in Central-South China, Sichuan in the Southwest, Shaanxi in Northwest China and Beijing for North China. Such ties could conceivably have helped integrate better certain sets of provinces. In more recent times several pairs of provinces have entered into partnerships for exchange

100 The programme was however, later enmeshed in bureaucratic disagreements over where the financing should come from – the centre or the respective provinces where the projects would be located. Yang and Wei, n. 82, pp. 84-85.


104 Goodman, n. 6, pp. 31-32. For a detailed look at how the transfers of top officials has been effected between provinces and between the provinces and the centre since 1990, see Zhiyue Bo, “The Institutionalization of Elite Management in China,” in Barry J Naughton and Dali L Yang (eds.), Holding China Together: Diversity and National Integration in the Post-Deng Era (Cambridge: Cambridge University Press, 2004), pp. 85-98.
of cadres between themselves, probably partly as a spur to the above process of learning from each other, and partly as a result of the centre's own desire to rotate provincial cadres between the coast and the interior. Jiangsu and Shaanxi began this practice in 1991 and were followed by Beijing and Xinjiang, Zhejiang and Ningxia, and Shandong and Shaanxi. Similarly, Gansu officials were posted to Zhejiang and Tianjin, while cadres from Shandong and Jiangsu worked in several interior counties and cities. It may be added here that the process of decentralization underway in China, may also help the process of cooperation between provinces, after the initial phase of competition between them. According to the theory of market-preserving federalism, while provinces may adopt different policies even if their objectives are the same, depending on their differing interests, expectations and capabilities, their policies will begin to converge over time as they become aware of the results of policies elsewhere and begin to compare the results. Provinces learn from each other and adapt or revise their policies to ensure success.

Aiding the process of improved inter-provincial linkages is also the increased population, communication and information flows between various parts of the country. Returnees and migrants have for example, taken the initiative in improving infrastructure in their towns and villages, investing in the local economy, and confronting bureaucratic inertia or overreach among other things. Traditional barriers of culture, language and ethnicity are being broken down by the use of standard Mandarin (Putonghua) in national broadcasts of news and entertainment.

105 Lam, n. 82, p. 216.
109 Rong, n. 85, p. 57. The counter-argument is that the advent of technology has led to a revival of provincial cultures including the strengthening of dialects that are now increasingly find
China's regions are of different varieties but examples from two main classifications are dealt with below. Under the first, based on the government's geographical division, the Western Region is examined while the second examines the economic growth centre-based regions of the PRD and the YRD. The latter two have become the two main engines of economic growth in China. Called the two 'dragons' in China – the 'South Dragon' of the PRD with Hong Kong as the 'dragon head' and the 'North Dragon' of the YRD with Shanghai as the 'dragon head,' these economic regions cut across provincial boundaries, and are responsible for one-third of the country's total GDP and some 60 per cent of China's foreign trade. What follows is an examination of the development, prospects and problems of each region.

The Western Region

China's vast western region makes up 70.4 per cent of the country's land area and contained 28.8 per cent of its population, in 2000. At least since the mid-1950s, policy has favoured the western provinces, in an arc from Yunnan through Xinjiang. Seven provinces in the West – not including Sichuan – have consistently received investment greater than their share of output over the decades but with the beginning of the preferential policies for the coast, these provinces began to slowly fall behind.

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The western region in China is not undeveloped by certain standards and has, in fact, a history of at least two thousand years of state-sponsored development, even enjoying periods of prosperity. The character of the current development has, in part, been shaped by this long history of state intervention in the local economy.


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However, any positive impact notwithstanding, it has been contended that the lack of local initiatives has acted as a constraint on growth.\textsuperscript{114}

In an effort to bridge the growing regional gap, the central government promulgated the Great Western Development Strategy (WDS) in 1999 to attract and allocate financial and other resources to this less developed region. This announcement came about due to several considerations. First, increasing regional disparities have drawn the attention of politicians and scholars who have continuously criticized the unbalanced government policies and thus helped pressurize the central government into taking remedial measures.\textsuperscript{115} According to Naughton, the WDS was also a very public and symbolic demonstration of the central government’s concern with national unity, inequality and poverty and at the same time part energy policy, part environmental programme and part spur to further economic liberalization measures.\textsuperscript{116} Second, the strategy follows Deng Xiaoping’s blueprint which stated, that after the coastal region had developed to a certain level, it had to help the interior provinces with its strength. Deng had also indicated that the end of the twentieth century was the time to start this second stage. Finally, developing China’s west is aimed also at boosting domestic demand.\textsuperscript{117}

The 8\textsuperscript{th} and 9\textsuperscript{th} FYPs in China laid out several projects in Tibet for agriculture, water conservation, hydroelectricity, airfields and highways and some RMB1 trillion was earmarked for infrastructure building in the western provinces during the 10\textsuperscript{th} FYP (2000-2005) with another RMB165 billion allotted in 2006 for spending on 12 major projects in the region.\textsuperscript{118} Some of the “big projects” in

\textsuperscript{114} Yeung and Li,\textit{ ibid.}; Li Xiaojian, Y M Yeung and Qiao Jiajun, “Historical Legacy and Future Challenges,” in Yeung and Shen, n. 51, pp. 27-49.

\textsuperscript{115} Yeung and Li, n. 112, p. 22.

\textsuperscript{116} Naughton, n. 113, pp. 253-95.

\textsuperscript{117} Yeung and Li, n. 112, p. 22. See also Fan Jie, “Western Development Policy: Changes, Effects and Evaluation,” in Yeung and Shen, n. 51, pp. 79-105.

recent years include the Sichuan-Tibet and Qinghai-Tibet Highways, the Qinghai-Tibet Railway (QTR), the Yangbajan Terrestrial Heat Power Station, the Yangzhuoyong Pumping Storage Power Station, and airports at Gonggar, Bangda and Nyingchi. These infrastructure projects are clearly aimed at promoting the integration of Tibet with the interior of China as well as to increase trade between China and India and other South Asian nations. According to the Tibetan Academy of Social Sciences (TASS), Tibetans would benefit from the QTR because of reduced transportation costs and commodity prices, rise in tourism, expanding economic exchange with inland areas and the exploration of mineral resources. Another study by the TASS and the Institute of Industrial Economies under the Chinese Academy of Social Sciences (CASS) predicted that the QTR was likely to increase Tibet’s annual tourist inflow by 30 per cent with arrivals hitting just over 5 million by 2010 and tourism revenues touching nearly RMB5.8 billion. The QTR has also been designed to increase the levels of urbanization in Tibet with substantial population transfers expected to the TAR. Infrastructure development designed to increase the integration of the western region with the rest of the country is thus the “core” of the WDS.

The western provinces however, fall into very different groups – Tibet, Qinghai, Gansu, Ningxia and Xinjiang in the west and northwest form one group and Sichuan, Chongqing, Guizhou and Yunnan in the southwest form another – based

2371247. For more on infrastructure development in the Western Region, see Y M Yeung, Jin Fengjun and Zeng Guang, “Infrastructure and the New Economy,” in Yeung and Shen, n. 51, pp. 107-31.


124 Naughton, n. 113, pp. 269-71.
on population size, geography and development paths among other things. Moreover, state intervention in western development suffers from the fact that the central government's ability to intervene in the economy has been declining, including also the rate of return from the investments, even if as Naughton says that the WDS reflects the increased capacity and resources available to the central government. Further, there have also been concerns about whether the WDS was getting less attention because of the "Northeast Revitalization Programme" that the central government had introduced at the end of 2003. Western leaders were concerned that there would be a slowing down in the pace of development in the region as a result. However, central government authorities declared at the Western Forum in 2004 held in Nanning, Guangxi that the development of the Western Region remained a national priority. Despite the attempts at slowing down the national economy as a whole, key economic sectors in the Western Region would, however, continue to receive additional bank loans.

The WDS appears to hint at a degree of internal colonialism given its projects of resource extraction and infrastructure development. There are in addition, larger problems of balancing economic growth with improvement in living standards and sustainable development, including environmental protection and resource utilization. The central government driven by market considerations, has however, to concentrate only on particular areas, often Han-dominated, to act as growth poles. Given the vast area and its remoteness, it will be a long time before central government intervention will bear any significant results.

\[125\] Ibid., pp. 275-81.

\[126\] Ibid., p. 261.


\[128\] Yeung and Li, n. 112, p. 24; Naughton, n. 113, pp. 289-93.
The Pearl River Delta (PRD)

The PRD was first identified for opening up and preferential policies as one of three Coastal Open Economic Zones in 1985 – the others being the YRD and Fujian. Today the PRD, consisting of Hong Kong, Macau, and Guangdong province, would, if it were a country, be the world's 16th largest economy, and 10th largest exporter. Although the PRD accounts for less than 0.5 per cent of the landmass and less than 5 per cent of the population of China, the region currently accounts for approximately 20 per cent of China's GDP, and 40 per cent of its exports.130 Just the eight cities at the core of the PRD, namely, Guangzhou, Shenzhen, Dongguan, Zhuhai, Huizhou, Foshan, Jiangmen and Zhongshan, accounted for about one-third of China's FDI and exports over the decade beginning 1992. These eight cities with a total land area of only 9,000 sq. kms. encompassed an ASEAN-sized economy roughly equivalent to that of Malaysia in GDP terms.131

In the late 19th and early 20th century, it was Guangzhou, the capital of Guangdong, that was the largest city of the Pearl delta region and which was more developed than Hong Kong. It was only following 1949 that Hong Kong began to overtake Guangzhou and this it did despite the decline in trade with China which had hitherto sustained the city. In the 1950s, Hong Kong turned itself into an industrial centre on the strength of the refugee influx from across its borders and soon developed export-oriented industries in textiles, plastics, electronics and electrical goods. By the late 1970s, Hong Kong had also begun to transform itself into a major regional financial centre.132 On the Chinese side, meanwhile, it was not until the reforms of 1978 that the PRD began to regain some of its previous economic dynamism. This happened in two stages. In the first stage from 1978-1990, the PRD economy was the site largely of labour-intensive processing

130 “Pearl River Delta faces up to challenges,” Asia Monitor: China & North East Asia, Vol. 12, Issue 8, August 2005, p. 3.


industries. In the second stage that has continued to the present, the region’s economy has diversified to include both tertiary activity and real estate development.\footnote{Ibid., p. 322. For more on the early stages of the development of the Guangdong-Hong Kong region, see Vogel, n. 102, pp. 420-49.}

Map 4.2
The Pearl River Delta

![Map of the Pearl River Delta](http://www.cityu.edu.hk/lib/collect/prdyrd/about_us/prdmap.jpg)


The Guangdong side of the PRD that has been important to Hong Kong throughout its history as a source of daily necessities including food stuffs and water, has since 1978 filled the city’s “rice bowls in ever more sophisticated ways.”\footnote{Victor Fung, “Hong Kong and the Pearl River Delta - Competing Together,” in Yeh, et al, n. 110, p. 28. See also Vogel, ibid., p. 46; David Faure, “History and Culture,” in Brian Hook (ed.), Guangdong: China’s Promised Land (Hong Kong: Oxford University Press, 1996), p. 15.} Following the return of Hong Kong in 1997, cooperation between Hong Kong and Guangdong is said to have entered the ‘golden era’ with extension of boundary opening hours and promotion of Chinese language education in primary
and secondary schools in Hong Kong, in addition to cooperation in areas such as tourism. While in the past cooperation was mainly by non-government actors and based on the ‘back factories, front shop’ relationship between the two areas, today a more comprehensive kind of cooperation has emerged still determined by market forces but increasingly facilitated by the governments of Hong Kong and Guangdong and aided by technological advances. There have been several high-level exchanges between officials from both sides of the boundary on issues of economic development, environmental issues, infrastructure and transport links among others. Official bodies for such contact include the Hong Kong/Guangdong Cooperation Joint Conference, the Cross-boundary Liaison System and the Hong Kong and Mainland Cross-boundary Major Infrastructure Coordinating Committee. In the private sector, meanwhile, the Project 2022 initiative - sponsored by a group of Hong Kong business persons - aimed at understanding the existing and potential administrative, social and environmental linkages between the city and the PRD and explores ways and means to improve cooperation and coordination in order to increase the competitiveness of the region.

There are several advantages that accrue to Hong Kong from association in the PRD. However, it is the degree of integration that determines the degree of advantage. On the one hand, closer integration helps because already a lot of real estate development projects in China have been handled by Hong Kong companies or include a Hong Kong partner but on the other hand, since many Hong Kong residents have invested in the property market in Guangdong taking advantage of the lower property prices, such close integration might rob individuals of any particular benefit. Similarly, the current differentials between the two economies, including the lower living standards on the Guangdong side

135 Dong Hong, “Modernization of the Pearl River Delta Region and the Stability and Prosperity of Hong Kong,” in Yeh et al, n. 110, pp. 35-36.


137 Fung, n. 134, p. 31.
are what make it worthwhile for retired Hong Kong people with limited incomes to settle across the border.\textsuperscript{138}

The region has in recent times, started moving up the value-added chain, becoming a hub for Japanese car-makers and also drawing in support industries such as steelmakers and auto part suppliers. Meanwhile, low margin exporters such as clothing manufacturers have begun to leave the region in search of lower-cost areas in China's interior. Hong Kong businessmen also now receive national treatment in certain sectors in Guangdong, that is, they no longer need to find a mainland partner for setting up a business.\textsuperscript{139}

Crossing the boundary between China and Hong Kong has today, become a daily affair for thousands, including schoolchildren who live in Shenzhen but attend school in Hong Kong, and the numbers are only expected to grow.\textsuperscript{140} A number of challenges, however, still exist in the region such as shortages of energy and of labour and pollution. The PRD's relatively low population could also conceivably act as a constraint on continuing growth and eventually lead to a decline in growth. On all these fronts, the greatest economic impact could be on wealthier business and tourism centres, such as Hong Kong, Shenzhen, and Macau.\textsuperscript{141}

To combat these challenges, several strategies have been mooted such as upgrading and optimizing the industrial structure of the PRD by means of technological innovation, establishing an information economy, improving urban-rural integration through improved infrastructure, maintaining a coordinated balance between population, resources and the environment, promoting "socio-cultural modernization and human modernization," and strengthening the legal


\textsuperscript{140} Thomas J Campanella, Ming Zhang, Tunny Lee and Nien Dak Sze, "The Pearl River Delta: An Evolving Region," in Yeh et al, n. 110, p. 23.

\textsuperscript{141} "Pearl River Delta Faces Up to Challenges," n. 130.
Various planned and ongoing mega-infrastructure projects in the PRD include the Cyberport, "Silicon Harbour" and "Chinese Medicine Hub" in Hong Kong and the Guangzhou International Bio-island, Software Park, Science Park and the "Optics Valley."\(^{143}\)

In addition, the Chinese side is set to press ahead with controversial plans to create a Pan-Pearl River Delta that would extend the area of regional cooperation to include eight more provinces in the centre, east and west of China, in addition to Hong Kong and Macau. The scheme, known as '9+2,' would cut non-tariff barriers between the provinces (implying that they exist as of now) while also improving transport links across the region through the construction of more road, rail and air links. Altogether, the region would have a combined population of 630 million, encompassing one-fifth of China's land, a third of its exports, and 40 per cent of its economic output.\(^{144}\) The extended areas would provide a large market for many of the region’s small companies, which currently lack the necessary scale to export goods abroad. The inland provinces also have an abundance of cheap labour, natural resources and electricity.\(^{145}\)

However, there are challenges of a different sort as well, namely the differences between the Hong Kong authorities and local governments in China over the nature of integration between Hong Kong and the other economies in the PRD. This integration involves many political and economic aspects that were only partially resolved by the handover.\(^{146}\) The ideal remains to "compete together, not against each other,"\(^{147}\) and in 2001, then Hong Kong Financial Secretary and now Chief Executive of the Hong Kong Special Administrative Region (SAR), Donald

\(^{142}\) Hong, n. 135, pp. 34-35.

\(^{143}\) Ibid., p. 36.

\(^{144}\) "Pearl River Delta Faces Up to Challenges," n. 130.

\(^{145}\) Ibid.

\(^{146}\) For more on the problems, consequences and challenges of Hong Kong's integration with the rest of the PRD, see, Alan Smart, "The Hong Kong/Pearl River Delta Urban Region: An Emerging Transnational Mode of Regulation or Just Muddling Through?," in Logan, n. 109, pp. 92-105.

\(^{147}\) Fung, n. 134, p. 27.
Tsang, had declared that the two areas “must aim to complement each other, making the most of our different strengths, turning them into a competitive advantage for the entire South China region.”\textsuperscript{148} However, problems have arisen from the integration of Hong Kong and the PRD, due to the divergent interests of the major stakeholders – the local governments on the Chinese side, the Hong Kong authorities, and various business communities in Hong Kong. Policy on the Chinese side of the PRD aims to move progressively from a labor-intensive production base to a more technologically advanced one, using the networks developed by Hong Kong over the years with other regions of the world. This is the most advantageous situation as Hong Kong, while having a diminished role within China, would not only keep its position as an international financial center, but would also become a major center for the PRD. However, Hong Kong authorities have tried to keep an industrial base in the territory and protect its entertainment and retail sectors,\textsuperscript{149} and despite the comparative advantage that Hong Kong has built over the years, the secondary economic centers of the PRD have ambitions of their own to develop into joint network, communications, and high-tech hubs. Thus, some officials in the PRD view Hong Kong’s role as one of merely transferring its expertise and knowledge to these secondary centers. Therefore, while increased cooperation between Hong Kong and the rest of the PRD is on everyone’s agenda, this cooperation means different things to different people.\textsuperscript{150}

Further, as Hong Kong authorities have noted, Hong Kong is threatened by the rapid development of the cities within the PRD and beyond – the rapid expansion of container port facilities in Shenzhen, for example, poses a long-term challenge to Hong Kong as the premier trans-shipment centre for exports from the region.\textsuperscript{151}

\textsuperscript{148} Quoted in Cheung, n. 110, p. 44.
\textsuperscript{149} Louis, n. 138, p. 10.
\textsuperscript{150} Ibid., pp. 7-8. See also Cheung, n. 110, p. 42.
From the Hong Kong point of view, therefore, integration with the PRD could lead to economic disturbances for the territory, if all of Hong Kong’s industrial labor force is relocated there or political crises occur on the other side of the border. If these factors were considered and if things were completely up to the Hong Kong government to decide, it could conceivably prefer to keep its industries within its border, or try to create a financial and high-tech hub that could work independently of the industrial situation in Hong Kong and China.  

This perceived need of Hong Kong to maintain its premier status vis-à-vis the mainland – the Commission on Strategic Development in Hong Kong stated in 2000 that the aim was to make Hong Kong Asia’s World City – has come under attack in the Chinese press. The city was asked not to engage in “senseless competition” with Guangzhou or be “obsessed” with the competition from Shanghai’s rise as a financial centre and told that it would be increasingly unable to compete with many mainland cities in providing traditional services.  

Meanwhile, in Guangdong itself, economic success in the province has not necessarily been reflected in comparable administrative accomplishments, with the state bureaucracy growing at twice the rate of overall employment growth and more than doubling in size over the reform era. State sprawl has been accompanied by higher levies and charges rather than by higher levels of efficiency with implications not only for government but also for the institutionalization of the market economy. Back-door deals, “flexible” regulations, and government by discretion may well have served to catalyze

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153 Cheung, n. 110, p. 43.

154 Liang, n. 151.


development in an under-performing economy but as Peter Cheung says, a sophisticated market economy requires the rule of law, predictable process, and a responsive administrative framework. To develop a meritocratic, rule-abiding public bureaucracy with the same speed that it embraced economic reform nearly three decades ago presents for Guangdong, "a daunting challenge." 157 While the province, has laid stress on convergence with Hong Kong not only in infrastructure but also in the realm of ideas, 158 it also risks turning into a mere appendage of Hong Kong if it does not pull its act together in other areas.

In addition, it also needs to be noted that the Guangdong provincial government has since 1997 been unable to take initiatives on its own since these could be interpreted as intervention in Hong Kong’s domestic affairs. For example, in the mid-1990s, the Shenzhen city government wanted to collaborate with Hong Kong to develop its high-tech industries but finally decided to go it on its own owing to a rather lukewarm response from the Hong Kong SAR government. In May 2001, during a visit to Hong Kong, the Shenzhen mayor did not hesitate in pointing out the several weaknesses Hong Kong suffered from – in manpower, in research and development (R&D) capacity and in the industrial capacity required for developing high-tech goods. He also called for faster decision-making and greater administrative efficiency in Hong Kong. 159 Similarly, in June 2002, the Guangdong People’s Political Consultative Conference declared that Hong Kong-Guangdong cooperation had failed to meet the needs of the situation and Hong Kong officials were asked 'to liberate their thinking.' 160

The situation is further complicated by the conflicting interests of Hong Kong’s business community and the rest of the population. The issue of transport links between Hong Kong and the PRD is a case in point. While in general, the

157 Ibid., p. 5.
158 van Kemenade, n. 63, p. 287.
159 Cheung, n. 110, p. 41. The reluctance of the Hong Kong government may be explained by the fact that the Shenzhen government looked for joint projects involving direct government involvement which militated against Hong Kong’s free market proclivities (p. 47).
160 Quoted in Cheng, n. 1, p. 17.
manufacturing sector would benefit from more efficient procedures for crossing the border (due to lower wages and land prices), the retail and entertainment industries do not favor such moves as they already have difficulties competing on price with Shenzhen and Guangdong. Further, since the shift of the manufacturing sector to the mainland has led to a loss of jobs in Hong Kong, the territory's government is all the more compelled to protect the retail and entertainment industries, which employ a significant portion of the population. In fact, it has been noted that while the free flow of resources between Shanghai and its neighbouring provinces in the Yangtze basin has helped dramatically improve the region's competitiveness, this is not the case in the Hong Kong-Guangdong relationship. There is also the possibility that differences exist within the Hong Kong government. The Legislative Council, for example, in late 2001 criticized the government for making the long-term commitment of 24-hour boundary crossing before carrying out a thorough study of the consequences and for not engaging in sufficient consultations with it. A clear consensus thus does not exist in Hong Kong on enhancing links between Hong Kong and the rest of the PRD.

There is also the impact of certain decisions from the colonial era that has affected Hong Kong-PRD integration. The location of the Chek Lap Kok airport is one such decision. The airport is located on Lantau island which creates difficulties of access between the two sides. Another problem – also referred to above – with likely long-term implications is the fact that there is a lack of sufficient trained local professionals to conduct R&D in Hong Kong. The education system too has failed to stress the need to train such professionals, which in turn reflects a failure

161 Louis, n. 138, p. 8. See also Cheung, n. 110, pp. 46-47.
163 Cheung, n. 110, pp. 47-49.
164 Louis, n. 138, pp. 9-10.
of the government as well.\textsuperscript{165} On the Chinese side, the shortage of talent in Guangdong’s cities has proved a deterrent to many financial and non-financial institutions in setting up their offices in the province.\textsuperscript{166} In addition, not many Hong Kong employers were willing to put in the effort to secure work permit for mainland professionals, especially those without any experience.\textsuperscript{167}

These problems were sought to be addressed by the Closer Economic Partnership Agreement (CEPA) – negotiated between the Hong Kong Government and Chinese authorities and implemented in January 2004 – covering trade in goods, services and investment facilitation. By 2006, China had opened up 27 service sectors, including logistics, distribution, tourism and banking to investors from Hong Kong with mutual recognition of professional qualifications and facilitation of business visas.\textsuperscript{168} The CEPA allowed, for example, the entry of more than 4,000 Hong Kong products into the mainland tax free and facilitated an increase of Chinese tourists to Hong Kong, boosting the city’s economy. However, across China itself, Hong Kong businessmen soon faced falling demand and many had to turn to smuggling to make ends meet. Part of the problem was that the local authorities and property management companies could not resist the temptation to allow non-Hong Kong enterprises to cash in on the association with Hong Kong businesses within the same malls and shopping complexes housing the latter. Chinese enterprises sold goods that were either fakes or not from Hong Kong causing discontent among Hong Kong retailers, negative press coverage and eventually a loss of customers.\textsuperscript{169} Nevertheless, in an interview to Xinhua on the eve of the third anniversary of the CEPA, the Hong Kong Finance Secretary,

\textsuperscript{165} Ibid., footnote 8, p. 12. See also Yeh, n. 132, p. 333 and Vogel, n. 102, pp. 57-58.

\textsuperscript{166} Cheng, n. 103, p. 29.

\textsuperscript{167} Hong, n. 155.


Henry Tang was still saying that the CEPA had helped speed up the economic integration between the city and the mainland and also aided the city’s economic recovery and restructuring. The CEPA allowed Hong Kong’s enterprises to be among the first to take advantage of emerging opportunities in the Chinese market and helped its banks to enter the Chinese mainland market further strengthening the city’s position as an international financial center. 170

Hong Kong is one of the world’s most expensive cities and the cost of doing business in it has gone up considerably over the years with high wages, rentals and costs-of-living. With its economic slowdown and the rest of the PRD and China rapidly gaining on it, Hong Kong’s worries about maintaining its exclusivity are understandable. 171 It is therefore probably not surprising that it has sought to develop a strategy geared towards not just the PRD but also the rest of China. 172 Thus, it was that in November 2003, following the signing of the CEPA, then Hong Kong SAR Chief Executive Tung Chee Hwa, at a conference organized to examine the prospects for cooperation between Hong Kong and Shanghai, noted that Shanghai would be a strategic partner important to Hong Kong’s future. Tung held that the development of Shanghai helped foster the development of Hong Kong, creating an advantageous situation for both. Hong Kong and Shanghai could optimize their resources by encouraging exchanges among information technology professionals, integrating market institutions and infrastructure networks and coordinating their respective industrial formations. Hong Kong’s advantages of a well-established market economy, modern management and international best practices, Tung said, would also help ease Shanghai’s entry into and adjustment with the international market. Shanghai’s rapidly growing economy with its demand for professional services, would in turn


171 It is interesting to note that Tung Chee-hwa, the Hong Kong Chief Executive, had originally proposed a ‘free trade zone’ between Hong Kong and China but Beijing objected to the term on the grounds that it carried connotations of dealings between two countries and chose CEPA instead. “Free trade pact brings ‘golden chance’ for HK,” China Daily (Hong Kong), 17 June 2003, p. 1.

help Hong Kong’s own process of economic restructuring.\textsuperscript{173} Similarly, Hong Kong’s mainland strategy cannot ignore the fact that its endeavours in developing high-tech might require increased cooperation with areas like Beijing rather than only cities in the PRD.\textsuperscript{174}

The PRD also perhaps suffers from the fact that Hong Kong is treated by the rest of the country as common property whose benefits and advantages should not remain exclusive to the PRD.\textsuperscript{175} Hong Kong is seen as performing a role in helping Chinese provinces and regions adjust or ‘socialize’ themselves to the international way of doing business.\textsuperscript{176} A \textit{China Daily} opinion piece reminded the city that it had “thrived in recent years largely by meeting the needs for economic development on the mainland.” It further suggested that, “... Hong Kong companies must look beyond the neighbouring Pearl River Delta region for new opportunities. They should keep in mind that the biggest demand for services will come from the large State-owned enterprises in the Yangtze River Delta area and further north.”\textsuperscript{177} Thus, Beijing portrayed the CEPA with Hong Kong as “a generous gift to the SAR” and “a golden opportunity... to complete [Hong Kong’s] economic restructuring...”\textsuperscript{178} Indeed, it might be worth considering if

\begin{itemize}
\item[\textsuperscript{173}] "CEPA boosts HK, Shanghai cooperation: Tung," \textit{People’s Daily}, 1 November 2003, http://fpeng.peopledaily.com.cn/200311/01/eng20031101_127377.shtml. It has to be remembered that following Liberation in 1949, Shanghai’s wealthy merchants had moved to Hong Kong providing the basis for the growth of the British outpost as successor to Shanghai’s pre-eminence in manufacturing and international finance before World War II. Vogel, n. 102, pp. 47-48. Some of these linkages were crucial to Shanghai attracting investment from Hong Kong following the start of China’s reforms and Hong Kong is already Shanghai’s largest foreign investor. Li and Yang, n. 162, p. 223. Just as important, Tung Chee-hwa, is of Shanghai origin and given the traditional rivalry between the Cantonese and the Shanghainese on the island colony, his appointment was a major source of heartburn at the time of the handover in 1997. Lary, n. 109, p. 189.
\item[\textsuperscript{174}] Cheung, n. 110, p. 50.
\item[\textsuperscript{175}] See for example, Lam, n. 82, p. 242; Li and Yang, n. 162, p. 223. It is important to note too that the Hong Kong garrison is not subordinate to the Guangzhou Military Region as it normally should have been but is directly under the Central Military Commission (CMC).
\item[\textsuperscript{176}] See Yeh, n. 132, p. 337.
\item[\textsuperscript{178}] “CEPA presents HK golden opportunity,” \textit{China Daily} (Hong Kong), 30 June 2003, p. 8. It has to be noted that Chief Executive Tung and the Hong Kong General Chamber of Commerce also welcomed the CEPA as a means of helping the city recover from the impact of the SARS epidemic and to carry out economic restructuring. "Free trade pact brings ‘golden chance’ for HK,” n. 171.
\end{itemize}
Hong Kong’s treatment under the “one country, two systems” formula now considered, a privilege, might not eventually turn into a disadvantage in efforts to ensure closer integration between the city and the rest of the PRD, even as the YRD enjoys the ‘advantage’ of ‘one country, one system.’

Even though all areas of the PRD have not progressed uniformly, the former core-periphery nature of the PRD on the Chinese side has gradually disappeared and a more balanced economic pattern has emerged centered around Guangzhou, Shenzhen and Zhuhai with each gradually beginning to specialize in different activities. However, perhaps as a consequence, the Guangdong provincial government is also at times unable to rein in cities under its jurisdiction which have, following increasing decentralization over the years, become adept at defending their interests and thus create complications in coordination between the governments of Hong Kong and Guangdong. While the provincial government wishes to strengthen Guangzhou’s role as the hub of the province in all fields, Shenzhen and Zhuhai are unlikely to be happy with this vision. Coordination between Hong Kong and Guangzhou is, in fact, far less than that between Hong Kong and Shenzhen. Vogel in fact, narrates how in the 1980s, every summer, when Guangzhou went on daylight savings time following Beijing, the counties nearest Hong Kong and even some that were not so close to it preferred to continue with Hong Kong time that did not make the change. The successful restructuring of the economy of the PRD can only come about if there is rationalization of the production and manufacturing roles of the various city economies of the region.

181 Cheung, n. 110, p. 53. See also Cheng, n. 103, p. 25; Cheng, n. 1, p. 17.
183 Vogel, n. 102, p. 200.
184 Chan, n. 151, p. 353.
The PRD's problems, if left festering, could mean the YRD or other economic groupings could steal a march on the PRD. In fact, in 1995, Shanghai mayor, Xu Kuangdi, was bold enough to criticize Guangdong, during a trip to San Francisco, saying that his city provided a much higher success rate for foreigners doing business in China than the southern province and was far more reliable in sticking to its contracts. The lack of experience and expertise of local governments and entrepreneurs in Guangdong in dealing with foreign investors has already resulted in several multinationals preferring to set up shop in the YRD and in some instances even quitting the PRD. Part of the reason also lies in the fact that the YRD enjoys much better access to China's domestic markets than the PRD, and this has been noted by foreign firms. The speed with which the Shanghai-centred region is catching up is demonstrated by the fact that while the exports of Guangdong doubled in the five years before 2003 to US$153 billion, those of the YRD quadrupled over the same period, and are roughly the same. In terms of FDI too, the YRD is now ahead of the PRD, having attracted US$21 billion in FDI in 2003, compared with US$7.8 billion in the PRD. Similarly, by end 2005, the YRD had replaced the PRD as the largest destination for investments from Taiwan.

Competition also comes from other parts of the country such as Fujian, which announced plans in 2004, to set up the West Coast Economic Zone with the declared aims of speeding up economic integration with Taiwan and promoting reunification of the two sides. However, besides the Zone being designed to become one of China's growth centres alongside the PRD and the YRD, it was expected also to expand from the coastal areas of Fujian to incorporate inland areas.

185 For more on the competition between Guangdong with Shanghai, see Li and Yang, n. 162, pp. 223-25. Historically, there is a precedent to Guangzhou being overshadowed by Shanghai. This happened most notably from the 1870s when foreign trade via the Suez Canal increased dramatically for both cities but Shanghai was the main beneficiary owing among other things to its large international settlement. Faure, n. 134, p. 13.

186 Lam, n. 82, pp. 252-53.

187 Cheng, n. 103, p. 27.

188 "Pearl River Delta Faces Up to Challenges," n. 130.

189 "Yangtze River Delta Lures Taiwan Entrepreneurs," n. 111.
areas in its neighbours, Zhejiang and Guangdong. 190 The PRD will thus increasingly need to respond to competition from both within and outside the country. 191

**The Yangtze River Delta (YRD)**

The Yangtze River Delta economic development zone, covering Shanghai and 14 cities in northern Zhejiang Province and southern Jiangsu Province, comprises just 1.04 per cent of the country’s land, but has a GDP that is three times the national average, 192 and contributed more than one third of China’s export volume in the first half of 2004. 193 The lower Yangtze valley has historically been a key area of economic development in particular during the Yuan and Qing dynasties. 194 Today, the YRD, with Shanghai at its core, is again an important centre of growth in the country and is expected to also spread development inland along the Yangtze River Basin.

In the 1970s, Shanghai already occupied a leading role in the Chinese economy as the largest contributor to national income, revenue and GDP. The Chinese government had invested heavily in the province, with SOEs accounting for 91.1 per cent of the area’s industrial output. Shanghai’s centrality to the national economy meant that the Chinese government continued to maintain a strong

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194 Jacobs, n. 97, p. 114.
control over the economic model even after the period of reforms had begun, and even as other regions were being opened up to foreign investment. 195

Map 4.3
The Yangtze River Delta


Shanghai, thus had a late start in the FDI game. It was only in the late 1980s that it saw the first recognizable flows of FDI and even then, they were mostly intended

195 See He, n. 99, pp. 67-73.
for the tourism sector. Only in the early 1990s did FDI for manufacturing and services pick up substantially and today Shanghai is second only to Guangdong province in attracting FDI.\textsuperscript{196} Shanghai’s increasing political clout with the Chinese government\textsuperscript{197} explains partly this upward trend but Shanghai was China’s leading financial center even before the reforms were put in place. Being one of the first provinces to open up the service sector to foreign participation, Shanghai served as the first stop in China for several global financial services firms, further cementing its leadership position as a financial hub. Shanghai is gradually emerging from being a financial hub for foreign-funded enterprises (FFEs) in the neighboring provinces, particularly Jiangsu and Zhejiang, to serving as a hub for FFEs in the entire Chinese economy, a role that has begun to pit it against Hong Kong.\textsuperscript{198}

Shanghai, it has to be noted, has taken an entirely different route from Guangdong, creating a provincial economy with a different structure. In the 1990s, as China’s major exports such as garment and leather goods began to lose their sheen, new high-tech industrial zones comprising chip makers and chemical companies began to be established in the city. The Shanghai government was one of the first in the country to draw up plans to enhance the competitiveness of its manufacturing sector and by the late 1990s, had in contrast to the national trend of increasing trade surpluses, posted rising trade deficits, importing advanced and technology-intensive manufacturing facilities that would eventually help the city produce higher-end consumer goods. Today, FFEs occupy an important position in the Shanghai economy – responsible for more than half of the city’s exports\textsuperscript{199} and despite rising costs of Shanghai’s raw materials and labour, better profit


\textsuperscript{197} See Lam, n. 82 and She Zhixiang, Xu Guang and Godfrey Linge, “The Head and Tail of the Dragon: Shanghai and its Economic Heartland,” in Linge, n. 18.

\textsuperscript{198} Bajpai, n. 196. According to Yi-Xing Zhou, Shanghai still has a lot of catching up to do with Hong Kong in economic terms. Zhou, n. 183, pp. 71-72.

\textsuperscript{199} “Yangtze river Delta churns on manufacturing strength,” n. 192.
margins continued to attract foreign investors. There are over 40 multinational companies that have their regional headquarters in Shanghai, the largest for any city on the Chinese mainland, and in contrast to the PRD’s problems of inadequate attention to R&D, there more than 90 overseas-funded R&D institutions operating in Shanghai. In addition, it has been found that manufacturers in the YRD spend on an average, 11.63 per cent of their sales on R&D.

The city’s manufacturing sector meanwhile, is split into export-oriented small scale industries, and large, capital intensive plants that seek local markets. Shanghai’s service sector has however, gradually been displacing labor-intensive manufacturing activity and in some cases even causing factories to relocate to the cheaper neighboring provinces of Jiangsu and Zhejiang. These provinces have in turn benefited from the spillover of manufacturing activity, and from easy access to Shanghai’s financial services sector. This is a combination that has spurred a huge growth in manufacturing FFEs in these provinces. In fact, 62 per cent per cent of Jiangsu’s exports came from FFEs in 2002, accounting for a higher proportion of the province’s output than FFEs in Guangdong. Meanwhile, for the YRD as a whole, high-tech products and household appliances contributed substantially to the region’s exports with information technology products such as laptops and integrated circuits, in particular, forming ever increasing slices of the pie. In the domestic market, itself, Zhejiang holds the biggest market share in the country for some 232 industrial products, each of which brings in an annual sales turnover of over RMB50 million. And of the 232, 140 products have captured more than 40 per cent of the national market.

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202 Bajpai, n. 196.

203 Ibid.

204 “Yangtze Delta exports soar,” n. 193.

205 “Yangtze river Delta churns on manufacturing strength,” n. 192.
In April 2003, a memorandum of cooperation was signed between Zhejiang, Jiangsu and Shanghai to encourage trans-provincial private investment within the delta region and equal market access for each other that would facilitate the free flow of capital, professionals, technology and property. Among other measures taken were the establishment of a coordinated credit system and restrictions on companies whose licenses were revoked in any of the provinces.\textsuperscript{206} In November 2003, Jiangsu Deputy Governor, Jiang Dingzhi, Shanghai Vice-Mayor, Zhou Yupeng and Zhejiang Deputy Governor, Zhang Mengjin, met at a provincial-level work conference in Shanghai to seek the National Development and Reform Commission's help and coordination in pushing regional integration in the 11th FYP (2006-2010). Among the areas covered were industry, urban construction, transportation, information, tourism, natural gas pipeline networks and environmental protection. The aim according to the Shanghai Vice-Mayor was to build the YRD into China's first and largest united market that would have a free-flowing circulation of commodities, capital and human resources.\textsuperscript{207}

The ties between Shanghai and the city of Lianyungang in northeast Jiangsu are an example of how integration is proceeding in the YRD. The Shanghai-based China Shipping Group drew up plans in 2004 to invest US$422 million in Lianyungang port, one of China's top ports, to enable it to become a 100-million-ton-capacity port by 2009. Shanghai's two major supermarket chains, Hualian Supermarket Co. Ltd and Shanghai NGS Supermarket Co. Ltd also had their branches in the city. At the end of June 2004, Shanghai investments in the city accounted for 7.9 per cent of the city's total investment.\textsuperscript{208} Earlier, in January


\textsuperscript{208} "Lianyungang attracts more investors," \textit{East Day Daily}, 1 September 2004, http://english.eastday.com/eastday/englishedition/delta/userobject1ai489477.html. The Longhai-Lanxin railway, which runs from China's east coast to its western borders, links Lianyungang with the interior. The port city also sits at the intersection of two national highways, making it the most convenient sea outlet for the foreign trade from more than ten inland provinces including Gansu, Qinghai and Shaanxi. Further, the proposed 10,900km-long New Eurasia Continental Railway from Asia to Europe starts at Lianyungang and ends at Rotterdam in the Netherlands connecting

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2003, construction started on the Lianyan Expressway connecting the Yantong Expressway and Sutong Yangtze River Bridge and creating a transportation circle through the YRD.\textsuperscript{209} Similarly, Shanghai and Hangzhou, signed contracts worth US$212 million under which Shanghai companies would invest in infrastructure, information technology, horticulture and building materials projects in the Zhejiang capital.\textsuperscript{210}

The three YRD provinces have also coordinated in many of their social welfare policies. Local governments in the region have increased financial support for agriculture development, rural education and social security and beginning in 2006, Jiangsu, Zhejiang and Shanghai have exempted rural students from tuition and other fees during the nine-year compulsory education period. Jiangsu alone was expected to spend about RMB2 billion from its revenues for such subsidies. While Jiangsu and Zhejiang had granted basic living subsidies to all needy rural residents in their provinces, Shanghai aimed to raise the old-age pension and at improving medical services for rural residents.\textsuperscript{211}

In the 2005 \textit{Forbes Magazine} ranking of the Chinese mainland’s best business cities, the top three spots were held by YRD cities – Hangzhou, Wuxi in Jiangsu, and Shanghai. The list was compiled based on criteria such as labor force, talent pool, operating costs, market capacity, rate of growth, passenger and freight transport systems and contributions from the private economy. The fact that Jiangsu had more cities – 18 in the top 100 – on the list than any other province followed by Zhejiang, the previous year’s best performer, helped the YRD “beat


out" the PRD. However, concerns about the increasing cost of land and labour problems coupled with the high living costs in the YRD have meant that neighbouring provinces have begun marketing themselves as alternatives to Pudong, Suzhou or Wuxi.

It also has to be remembered however, that the original Shanghai Economic Zone established in 1982, comprising the same members as the YRD was a failure with one of the reasons being the rivalry between Shanghai and Zhejiang. Shanghai was more interested in using Zhejiang’s labour, raw material and rapidly growing markets to help its own modernization along. As the eminent Chinese sociologist Fei Xiaotong said in 1990, ‘Jiangsu, Zhejiang, and Shanghai will not cooperate. Sometimes, they act like relatives to one another; sometimes, they are like enemies, none willing to yield to the other.’ In the decade that followed, despite the apparent rise of the YRD cities, there has also been talk of competition between them and the overlapping of projects undertaken in them. While Shanghai has stressed its role at the centre of the economic network in the region, it has also been called a “poor choice” as the commercial centre of the YRD, owing its position largely to historical events and to central government policies rather than anything else.

The opening of the Yangshan deep-water port in Shanghai in December 2005, for example, prompted new expansion and construction at surrounding ports in the YRD, because of fears that the Yangshan port would affect their profits. The


213 She et al, n. 197, p. 113.

214 Forster, n. 101, footnote 5, p. 75.

215 Quoted in Liu, n. 28, p. 155.


Ningbo and Zhoushan port authorities of Zhejiang for example, immediately announced plans to merge and become a single entity in order to face the increased competition for cargo. On the surface, however, the talk was not of competing but of cooperating with and complementing the Yangshan port.\(^{218}\) Political decisions such as personnel changes could however ease such competition. For example, the transfer of the Zhejiang Party Secretary, Xi Jinping, to Shanghai as its mayor in 2007 could help improve cooperation between the city and its two partners in the YRD.\(^{219}\)

**Conclusion**

It might be instructive here, to examine similarities in the process of the formation of regions in contemporary China with the earlier era of the warlords. China fragmented rapidly following Yuan Shikai’s death, but after first seeking to become the new authority in the nation individually, the warlords soon realized the no single person could hope to achieve this and thus from 1916 to 1918 the major warlords formed alliances to ensure a reasonably stable balance of power\(^{220}\) and developed stronger ties with their followers, slowly establishing their control over blocks of provinces. Three major factions appeared as a result – Anfu, Zhili and Fengtian – by 1918. Tensions among these major factions led to the Zhili-Anfu War of 1920 resulting in the elimination of the latter. The Zhili faction also emerged victorious from the first Zhili-Fengtian War as its control over provinces expanded from three to eight and even though the Fengtian faction’s power had also expanded, this was not comparable to that of the Zhili faction’s expansion. The Zhili faction therefore, proceeded to consolidate its position with personnel

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changes and further battles. In late 1924, the Jiangsu-Zhejiang War broke out ending with the last remnants of the Anfu faction in Zhejiang fleeing to Japan. However, even before the war had ended, the Fengtian faction under Zhang Zuolin perceiving the threat to itself attacked the Zhili faction in the north and what is more, managed to induce the defection of a key Zhili warlord Feng Yuxiang and occupied Beijing. The Zhili campaign under Wu Pei collapsed leaving north China under Fengtian control and the south China under several warlords.

The point of this digression into history lies in an interpretation that this particular chain of events has evoked, namely, the opinion that the Zhili faction had attempted to "reunify" China. The argument is that the general view of the period stressing the static or equilibrium-producing aspects of the warlord system obfuscated the fact that for ten years China had struggled to get out of and indeed found increasing success in getting out of its predicament. China did not gradually slide into ever greater confusion and disintegration from 1916 to 1926 but had by 1916 already reached its most fractured condition ever more severe than anything that would follow. The evidence points to the fact that each of the major factions had a distinct leader, a factional hierarchy and a territory and the strength of these hierarchical ties were not insubstantial. Thus, the mere fact of rivalry between regional blocs need not necessarily imply an end of the larger national state, even if it is not at its optimum strength.

Further as Pye notes, the warlords realizing that they were caught in a complex balance of power paid greater attention to threats to their organizations and their bases of power. This meant that when evaluating their interests and considering their power prospects they tended to focus almost completely on short-term considerations, to the point that, even when the Nationalist armies were advancing upon them, the warlords could not convert their balance of power into a united

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221 See Shelly Yomano, "Reintegration in China under the Warlords, 1916-1927," Republican China, Vol. 12, No. 2, April 1987, pp. 24-26. It should also be remembered that the PLA was for a long time divided into the five autonomous field armies that had emerged out of the Civil War.
opposition. It needs to be asked whether this precedent has implications in the relations between groups of the interior provinces and the coastal provinces? It needs to be asked here if the central government would be able to maintain control over the country no matter what the strength of regional groupings? Or will it be the case, as Zhimin Lin states that regional alliances may emerge as alternative political centres in China in the future?

From the above examination of the three cases of regional groupings in China it may be concluded that the regions in China are a long way off from posing a political challenge to the centre by themselves, given their problems of economic coordination and continuing rivalries, both traditional and new. This has perhaps largely to do with strong government – whether central or provincial – involvement in the processes of development in each region. On the other hand, given the relative novelty of such attempts in China and with increasingly more economic and technological tools becoming available to both governments and private individuals and firms, this process could also conceivably be strengthened. Ultimately, however, it seems apparent that regionalization, that is, the greater involvement of non-state economic actors, must take place in a more substantial manner in the development of these regions.

In this context, what effects might the increased availability of political authority to the provinces have for the process of regionalism? The answer remains uncertain. Provincial authorities could conceivably have just as much incentive to cooperate as to walk out if they find things not to their satisfaction in a regional arrangement. In the latter case, such increased political authority can also lead to competition between provinces, between regions or the formation of rival regions and further competition. The centre therefore, will continue to have to play a decisive role and take its decisions with care.

222 Pye, n. 220, p. 10.