

THE REGIONAL DIFFERENCE OF CHINA AND ECONOMIC REFORM: CASE STUDIES OF GUANGDONG AND HUNAN

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I. THE IMPORTANCE OF THE PROBLEM OF REGIONAL DIFFERENCES

In the 1980s, China adopted a strategy which put major focus on the development of coastal areas and thus achieved a rapid economic growth. At the same time, the success enlarged the regional differences between the coastal and inland areas. Especially during the second half of the 1980s, Guangdong and other coastal provinces established an export-led industrialisation which was previously adopted by the NIES in Asia to speed up economic growth. On the contrary, in inland areas where the economic reform and open door policy were adopted very late, economic growth slowed down. This led to the further enlargement of regional differences between these two areas. Such kind of regional differences not only caused the problem of economic differences between coastal and inland areas, but also helped to develop the problem of a shift of financial power between central and provincial government, and the internal political confrontation within the government on the matter of economic power. Therefore, the question that how the differences among regional economies should be coped with becomes one of the most important issues facing China in the second half of the 1990s.

II. THE NATURE OF THE PROBLEM OF REGIONAL DIFFERENCES

The extent of differences among China's regional economies since the economic reform and open door policy were first revealed in the second Half of the 1980s. According to the Seventh Five-Year Plan, the whole China was divided into three regions: eastern region, central region, and inland region. The eastern region could be regarded as coastal areas which included 12 provinces and cities, while other two regions including 9 provinces respectively were considered as inland areas. Table 1 shows that the comparison of the consumption level per person by peasants and non-peasants and by total populations of coastal and inland areas in 1984 and 1993. The income differences between the total populations of

coastal and inland areas, and between peasant and non-peasants — especially between the non-peasant population in the coastal areas and the peasant population in the inland areas — has been increasing during the seven years. If we take the consumption level per person in the inland areas as 1, the consumption level per person in coastal areas was 1.23 in 1984, and the ratio of consumption level per person in the coastal to the inland increased to 1.46 in 1993. Especially during these nine years, the regional differences between the eastern coastal areas and the central inland areas were eye-catching. In addition, the ratio of consumption level per person in non-peasants to peasants increased from 2.23 of 1984 to 3.03 of 1993. This difference is larger than that between the coastal and inland areas and is enlarging in both these two areas.

Table 1

Economic Deferences Between Inland and Coastal Regions, and between Peasants and Non-peasants: 1984-1993

(Based on Per-Capita Comsumption)

	1984			1993			Non-peasants/ Peasants	
	Residents	Peasants	Non-Peasants	Residents	Peasants	Non-peasant	1984	1993
Coastal (East)	384	313	663	1,522	1,037	2,963	2.12	2.86
Inland	313	254	587	1,043	726	2,251	2.31	3.10
(Central)	(328)	(266)	(595)	(1,094)	(753)	(2,279)	(2.24)	(3.03)
(West)	(289)	(235)	(573)	(962)	(686)	(2,197)	(2.44)	(3.20)
Whole China	342	278	621	1,240	850	2,579	2.23	3.03
Coatal/Inland	1.23	1.23	1.13	1.46	1.43	1.32		
(East/Central)	(1.17)	(1.18)	(1.11)	(1.39)	(1.38)	(1.30)		
(East/West)	(1.33)	(1.33)	(1.16)	(1.58)	(1.51)	(1.35)		

Source: *Statistical Yearbook of China*, 1986 and 1995

If we do the cross-comparison between the coastal/inland areas and peasants/non-peasants, we can further understand the problem of differences among regional economies. The consumption level per person of the non-peasant population in the coastal areas was 663 dollars, 2.6 times of that of the peasant population in the inland areas which was 254 dollars in 1984. In 1993, the latter increased to 726 dollars and the former to 2,965 dollars, 4.1 times of the latter.

The economic differences between coastal provinces such as Guangdong, Jiangsu, Zhejing and so on where the economic development was led by industry,

and the so-called “agriculture provinces” in the inland areas such as Hunan, Anfei, and Jianxi became a serious problem. Such economic differences were the major reason why peasants in the inland areas came to find jobs in the processing and assembly factories in the coastal areas.

III. THE MECHANISM OF THE ENLARGEMENT OF THE DIFFERENCES OF REGIONAL ECONOMIES

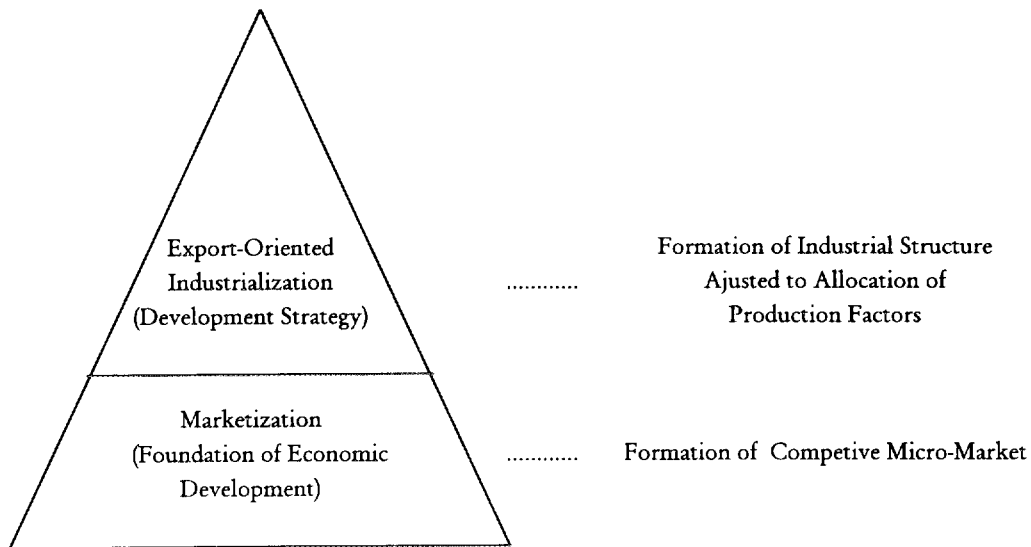
Then, why did the differences of regional economies enlarge? We can answer this question by analysing the mechanisms of economic development in the coastal and inland areas since the second half of the 1980s. Here, I want to take Guangdong which achieved rapid economic development as a case of the coastal areas and compare it with Hunan province — a large agriculture province — where a slow economic development was recorded. The area and population of these two provinces are almost the same and they relied on each other in economic terms. Since the differences of regional economies can be enlarged by the inter-flow of people, goods, and money, it is better to compare and analyse neighbouring areas, with economies complementing each other.

(1) Guangdong Model

As China switched to the economic reform and open door policy, Guangdong were given “special policies and flexible measures” and it was able to take advantage of its close proximity to Hong Kong. Consequently, the province enjoyed an economic growth rate from 1978 to 1992 of an average of 13.3%. This figure exceeded the national growth rate of 9.0% by over 4% annually, and registered the highest among the 30 provinces, cities, and autonomous regions of China.

The reasons behind such rapid economic growth were that (1) the province made full use of “special policies and flexible measures” to transform its economic system; and (2) it established export-led industrialisation with a focus on labour-intensive industries. Guangdong adopted the marketisation of its economy, built the competitive micro market, and was guided by market forces to establish the labour-intensive and export-oriented industrialisation which matched the allocation of the production factors of Guangdong. Although the strategy adopted to develop Guangdong’s economies through the export-led industrialisation was borrowed from NIES and ASEAN, Guangdong was the first in China to establish the marketisation of its economy and at the same time adopted an export-led industrialisation. Figure 1 shows the concept of “Guangdong model” which is used to catch the economic development of Guangdong.

Figure 1

Economic Development Mechanism in Guangdong

The marketisation of economy played an important role in building a competitive micro market and in establishing the foundation of Guangdong's economic development. On the demand side, with the transformation from ration to salary system, consumers were given the sovereignty in choosing their favourable goods. Those goods which were neither price-competitive nor quality-competitive would be driven out of the market.

In the supply side, the enterprises started to diversify into different forms and the inter-enterprise competition intensified. In the past, state enterprises, due to the ration and dual-price systems, were in an advantageous position in raising their production and capital resources. However, as the deregulation of prices proceeded, non-state enterprises (collectives, private companies, and foreign companies) had gained an equal stand with the state enterprises. The state enterprises were affected by the unfavoured social security and tax systems. They not only could not win the competition with non-state enterprises but also had to withdraw from the competition.

The establishment of competitive micro market in Guangdong brought about the industrial structure which matched the production factors of the province. Moreover, it also established the export-led industrialisation centred on the labour-intensive industries. In addition, the export-led industrialisation targeted both overseas and the huge domestic markets. It was in this aspect that

Guangdong differed from other Asian countries. The following shows the process in which the foundation of modern industries were built by the labour-intensive industries.

After China's economic reform and open door policy, enterprises in Guangdong earned foreign currency by exporting agricultural products and traditional labour-intensive products. These foreign currencies were then used to purchase raw material, parts, and to import technology. This promoted the development of new industries mainly involving consumer durable goods. These consumer durable goods were first sold in the domestic market, and accumulated profits funded the development of enterprises. As the consumer durable industries matured, enterprises started to target international market. As the foreign trade planning system and the foreign currency reserve system changed, and the control of foreign trade management became less strict, exports increased rapidly. The money generated from these international trade were used to purchase equipment and machinery. With improved productivity, Guangdong has been upgrading its industries. Goods produced by these upgraded industries are again sold in the domestic market, then exported to foreign markets where they are sufficiently competitive, creating the "beneficial cycle of domestic sales, exports and investment".

The economic development of Guangdong resulted from this cycle. Table 2 shows the comparisons between the composition of and contribution to GDP of Guangdong and Hunan. Guangdong's fixed asset investment increased sharply from 1984. The rate of investment in GDP, which was about 30% in 1984, reached 40% in 1992. Exports also increased from 1984 onward. The share of export in GDP rose from 13% of 1984, through 25% of 1988, to 44% of 1992.

Table 3 shows Guangdong's share in and its contribution to the national consumer durable production. Even the share of Guangdong's product in domestic market increased. The share of Guangdong-made cameras, which was about 10% in 1978, increased to 78% of China's national production in 1992. While the shares of cassette tape recorders and electric fans rose to 77% and 65% respectively, dominating the market. Refrigerators, washing machines, colour TV sets, which Guangdong either did not produce or produced few in 1978, captured a share of around 26% to 28% in 1992. The production of consumer durable goods rocketed in the late 1980s.

Viewing from the demand side, Today's economic development of Guangdong was closely related to the build-in "beneficial cycle of domestic sales, export and investment".

It was easy to imagine that the change of the structure of demand would bring about the change of the structure of supply. Since the economic reform and

open door policy, Guangdong has experienced a big structural transformation in which the industrial sector played the leading role. In short, the province has built its light industry-assembly-labour intensive industrial structure.

Table 2

Changes in Composition of and Contribution to GDP by Sectors: 1978-1992

GUNAGDONG								
Year	Private Consumption	Public Consumption	Gross Domestic Investment	Changes in Stock	Trade Balance	Export	Import	GDP
Composition of GDP in Current Price								
1978	53.6	3.6	14.7	9.1	10.8	12.6	1.9	100
1980	61.3	4.2	15.5	4.8	11.1	13.3	2.2	100
1984	52.3	4.9	29.5	2.9	7.2	13.1	5.9	100
1988	46.8	5.4	32.2	10.7	8.0	25.4	17.3	100
1990	40.3	6.2	25.3	8.0	15.6	34.3	18.7	100
1992	39.7	6.8	40.2	8.2	17.5	44.3	26.9	100
Contribution to GDP in Nominal								
1978-80	84.0	6.1	17.6	7.9	12.1	15.1	3.0	11.8
1980-84	40.7	5.7	47.4	0.6	2.2	12.8	10.6	10.3
1984-88	32.6	5.8	34.0	15.9	8.6	33.6	25.0	16.1
1988-90	21.3	8.3	5.1	0.2	38.0	60.7	22.7	9.1
1990-92	38.6	8.0	66.8	8.6	20.7	62.3	41.6	19.6
HUNAN								
Composition of GDP in Current Price								
1978	55.5	4.1	13.7	8.7	1.2	1.5	0.3	100
1980	57.0	5.2	16.8	3.3	2.4	2.5	0.1	100
1984	59.8	5.7	21.1	5.1	3.0	3.4	0.4	100
1988	52.9	5.0	24.0	10.2	2.8	4.1	1.2	100
1990	57.4	6.3	17.7	9.3	4.6	5.5	0.9	100
1992	54.5	6.7	25.4	8.0	4.5	8.5	4.0	100
Contribution to GDP in Nominal								
1978-80	61.8	9.1	26.9	6.2	6.2	5.5	-0.6	7.1
1980-84	65.8	6.5	29.7	4.3	4.3	5.2	0.9	8.4
1984-88	33.2	4.5	26.8	2.6	2.6	4.7	2.1	9.4
1988-90	79.9	12.3	-13.4	13.1	13.1	12.4	-0.6	3.8
1990-92	44.9	8.0	50.2	4.2	4.2	18.1	13.9	10.0

Source: *Statistical Yearbook of Guangdong and Hunan*, various issues.

If one classifies China's industries into three categories, namely, agriculture, industry, and service and looks at their ratio of contribution of each sectors to GDP. One finds that the industrial sector is the highest, at 58%, from 1980 to 1992, followed by the service sector at 30% and agriculture at 12%. Consequently, the production ratio of agriculture, industry, and the service sector

changed from 34:41:25 in 1980 to 16:57:28 in 1992. The change of industrial structure from agriculture to industry brought about a change in industrial structure, where the focus of industry shifted from heavy industries toward light industries, and the share of manufacturing and processing industries increased rapidly. Altogether, light and manufacturing and processing industries accounted for 89% of the total industrial output of Guangdong.

Table 3

**Changes in Industrial Structure and Labour Productivity by Sectors:
1980-1992**

Year	HUNAN				GUANGDONG			
	Agriculture	Industry	Service	Total	Agriculture	Industry	Service	Total
GDP in Constant 1980 Prices (100M RMB) and Its Composition								
1980	81 (42.3)	77 (40.2)	34 (17.5)	192 (100)	83 (33.8)	101 (41.1)	62 (25.1)	246 (100)
1992	142 (28.1)	231 (45.9)	131 (26.0)	504 (100)	180 (15.8)	644 (56.6)	315 (27.6)	1,139 (100)
Number of Workers (10,000 persons) and Its Composition								
1980	1,846 (77.0)	339 (14.1)	214 (8.9)	2,400 (100)	1,674 (70.7)	405 (17.1)	289 (12.2)	2,368 (100)
1992	2,213 (67.5)	614 (18.7)	452 (13.8)	3,279 (100)	1,594 (47.3)	1,025 (30.4)	748 (22.2)	3,367 (100)
Labour Productivity (Per-Capita RMB) and Comparative Labour Productivity								
1980	439 (0.55)	2,271 (2.84)	1,567 (1.96)	799 (1.00)	496 (0.48)	2,494 (2.40)	2,134 (2.06)	1,038 (1.00)
1992	641 (0.42)	3,771 (2.45)	2,900 (1.88)	1,538 (1.00)	1,130 (0.33)	6,286 (1.86)	4,206 (1.24)	3,383 (1.00)
Increasing Ratio of Labour Productivity								
1980-92	3.2	4.2	5.3	5.6	7.1	8.0	5.8	10.3
Number of Inter-sectional Migration (10,000 persons)								
1980-92	-310	151	159	[9.4%]	-786	449	337	[23.3%]

Source: *Statistical Yearbook of Guangdong and Hunan*, various issues.

Such a change of industrial structure was also reflected in the employment structure of Guangdong (see Table 4). Since the economic reform and open door policy, industry has displayed the strongest capacity in absorbing labour, followed by services. Not only was the agricultural sector unable to absorb the natural increase in the labour force but the absolute number of workers engaged in agriculture dropped. In fact, agriculture fell 24 percentage points in the share of labour from 71% in 1980 to 47% in 1992. By contrast, the industrial and service sectors rose by 14 percentage points and 10 percentage points, respectively. In

short, if we only look at the structure of supply after the economic reform and open door policy, we can see the industrial sector in Guangdong absorbing the surplus agricultural labour and Guangdong has established its labour-intensive industrialisation.

Table 4

**Guangdong's Shares in and Contribution to Production of
Durable Consumer Goods in China**

Year	Guangdong's Shares in China			Guangdong's Contribution to China	
	1978	1985	1992	1978 - 85	1985 - 92
Watches	3.2	15.7	40.3	20.0	82.1
Cameras	9.6	10.4	78.0	10.5	112.8
Washing Machine	0.0	8.8	26.2	8.8	* (1)
Refrigerators	0.0	16.3	26.1	16.6	30.3
Electric Fans	0.0	41.3	64.9	43.1	85.3
Color TV	0.0	18.2	27.9	18.1	32.8
Recorders	0.0	35.9	76.7	36.0	117.5
Radios	5.0	11.1	32.4	27.6	733.6

Note:

- *(1) The number of Production of washing machines in China as a whole decreased from 8.87 million in 1985 to 7.08 million in 1992, however, the number of production of washing machines in Guangdong increased from 0.78 million to 1.85 million.

Source: *Statistical Yearbook of China and Guangdong*, various issues.

(2) Hunan Model

On the contrary, the economic reform and open door policy could not achieve good result for the economy of Hunan. The average of the annual real GDP growth was 8.0% during the period of 1978 to 1992 and was below the national average by 1.0%. Especially, the average rate of annual economic growth in the latter half of the 1980s was 6.6% and such figure was even below the average rate of annual GDP growth of 6.8%, from 1949 to 1978. This was because the slow growth of agricultural and industrial production. We can thus conclude from the Hunan economy of the 1980s that the province was not able to take advantage of China's economic reform and open door policy.

The reasons for the stagnation of Hunan economy during the 1980s are: (1) the national agricultural policy together with the conservative tradition of Hunan slowed down the marketisation; (2) the preferential policy in the neighbouring coastal areas such as Guangdong.

The national agricultural policy greatly affected the speed of marketisation in Hunan. The state assigned the responsibility of grain production and pig farming to Hunan province which was considered as a suitable agricultural area. Hunan supplied food stuffs according to price fixed by the state's planning. Consequently, the agricultural structure of Hunan stressed grain production and pig farming. The grain production and pig farming constituted 60% of total agricultural production, constituted 85% of peasants' incomes, and absorbed 70% of agricultural labour in 1990. However, as the result of marketisation of surrounding areas, the prices of production factors such as agricultural machinery and fertilizer increased rapidly, thus lowered the income and decreased the productivity of Hunan's agriculture. Consequently, the Hunan government had to subsidise its peasant population. Such subsidise brought about the financial problems of the government and lowered the rate of the accumulation of the Hunan economy. The stagnation of the Hunan economy was the direct result of such state policy: "the cycle of biased agriculture, low productivity, and lack of investment".

In addition, the conservative tradition of Hunan also made planned economy perpetuate. Hunan is the place from where many outstanding politicians, military officers, and scholars originated. It has a traditional bias on politics rather than economy. This bias delayed not only the economic reforms but also opening. Moreover, the delay of importation of foreign capital not only cannot cover the lack of internal investment but also delay the importation of modern technology which further led to underdevelopment of its industrial sector.

The economic stagnation of Hunan province can be seen from the demand side as the lack of investment and export and from the supply side as bias toward agriculture. If we look at the demand composition of GDP of Hunan, we can see that the exports of Hunan was certainly much lower than those of Guangdong. The share of investment of GDP was also lower than that of Guangdong by 10 to 20 percentage points. However, the share of domestic consumption in GDP was higher. If we look at the contribution of domestic consumption to GDP, we can see that domestic consumption was the driving force of Hunan economy. The consumption oriented Hunan economy has gradually lose its dynamic.

Let us look at the industrial structure and employment structure of Hunan. The share of agricultural sector was obviously higher and the structural transformation was slower than Guangdong. In Hunan where the economy was of such low productivity and bias on agriculture, it took 68% of its labour force to

produce 28% of GDP. Moreover, the structural transformation was also slow and the shift of labour from agriculture to non-agriculture sector could not even reach half of that of Guangdong. Compared with Guangdong in which the industrial sector absorbed much surplus agricultural labour and helped to establish the labour-intensive industries, the industrial sector of Hunan province did not have such capacity of absorption and the agriculture sector was still stuck with more than 10 million surplus labour.

Another reason for the stagnation of Hunan economy was the imbalanced policy in favor of coastal areas such as Guangdong. Guangdong together with Fujian were given "special policies and flexible measures" by the Central government when China started the economic reform and open door policy. After that, the entire coastal area was blessed with the same policies in 1988, while it was until 1992 that the inland areas were opened. Consequently, the people, products, and money of inland areas, due to the imbalanced policy, shifted to the neighbouring coastal areas which hindered the economic development of inland areas. To cite an example in the policy of interest rate, apart from the recognition of the establishment of the Guangdong Development Bank and lease companies, interest rates were allowed to freely float according to the demand of money. Given the strong demand of capital in Guangdong, capital of Hunan was attracted to shift to Guangdong by the higher interest rate there.

Moreover, since companies granted the right to export in Guangdong were more than those in Hunan, wealth shifted from Hunan to Guangdong. Guangdong was granted the status of opening and Economic development regions and manufacturing companies there were also granted the right to export, while in Hunan only several import and export companies at the provincial level were allowed to export. Consequently, export-oriented products shifted to Guangdong from where they were exported.

The same goes for the importation of foreign capital. In 1980, three special economic zones were established in Guangdong and in 1984 two "open cities" were named. In 1988, the whole province of Guangdong was further open to the outside world. In contrast, just three districts were assigned the status of experimental open districts in 1988. In any open district, there were measures favourable to investment such as exemptions of income tax and a tariff on Imported machinery. The importation of foreign capital was clinched with these measures. Therefore, the reasons why the importation of foreign capital was so late in inland areas were not only infrastructure but also the state policy of economic reform and open door policy. The slow importation of foreign capital caused not only the lack of investment capital, but also late technology improvement and change of ideology.

The reasons for the difference of economic development between Guangdong and Hunan were two-fold. The first was the speed of marketisation. Thanks for the location and its proximity to Hong Kong as well as the special measures granted by the Central government, Guangdong rapidly proceeded the marketisation which established a micro market and formed a self-developed mechanism that matched the allocation of the production factors of Guangdong. In contrast, Hunan was damaged by the state's agricultural policy and by its conservative tradition and proceeded its economic reforms slowly. Therefore, there was still strong elements of planned economy in Hunan which further slowed down the structural changes and bias toward agriculture. The second was the imbalanced policy in favor of coastal areas. At the beginning of economic development, inland areas were at a disadvantaged position in terms of economic condition. The differences between inland and coastal areas led to the outflow of economic resources from inland areas to coastal areas which further made the former worse.

IV. THE DEVELOPMENTAL DYNAMICS WHICH REACHED INLAND AREAS

If the causes of economic differences between inland areas and coastal areas are remedied, inland areas also can achieve high economic growth. After experiencing the so-called "Duke economies" which were isolated from the economies of coastal areas, inland areas started to request the central government to change its imbalanced policy and they themselves actively implemented policies of economic reform and open door policy and adopted the dynamics of coastal areas.

Hunan has started to adopt policies of economic reform and open door policy since 1990. In 1992, it, due to the "Opening towards the whole China", accelerated the economic reform and open door policy. Hunan recorded 12% of economic growth in both 1992 and 1993, twice more than the late 1980s rate. Related to this, trade and importation of foreign capital increased rapidly too. The economy of Hunan also changed from consumption-oriented to investment-oriented. Table 5 shows the trends of the trade and importation of foreign capital. We can see that trade increased sharply after 1991 and 1992, while the importation of foreign capital increased rapidly from 1990 onward.

We have to pay attention to the fact that from 1992 onward, not only foreign companies but also coastal enterprises such as Guangdong enterprises greatly increased their investment in inland areas. Table 6 shows the trends of the investment of inland areas in Shenzhen and investment of the latter in the former. From 1992 onward, the investment of Shenzhen in inland areas increased rapidly.

Although Shenzhen enterprises either concentrated their investment on coastal areas such as Guangdong or invested in inland area property, we should also pay attention to the fact that they have already started to invest in inland areas. We can see foreign companies invest in Changsha of Hunan. We can also see coastal enterprises such as Guangdong enterprises which outnumbered foreign companies investing there.

Table 5

Changes in Foreign Trade and Foreign Investment in Hunan: 1983-1992

Year	Total Value of Trade			Utilization of Foreign Capital					
	Total	Export	Import	Num. of Contracts		Value of Foreign Capital Used			
				Total	FDI	Total	Loans	FDI	Others
1983	457	400	57						
1984	462	417	45						
1985	525	396	129	107	78	714	31.7	30.8	8.9
1986	624	503	121						
1987	746	619	127	36	22	28.9	26.0	2.4	0.5
1988	834	639	195	33	22	12.5	0.1	7.7	4.7
1989	852	666	186	126	37	122.4	99.1	8.4	16.9
1990	942	806	136	153	45	240.1	224.8	11.2	4.1
1991	1,375	1,017	359	290	154	281.3	255.9	22.8	2.7
1992	2,078	1,411	667	867	782	329.0	196.3	128.5	4.2

Source: *Statistical Yearbook of Hunan*, various issues.

The reasons for that are (1) inland areas, due to the "total opening policy", were able to take advantage of specially favourable measures which were previously only confined to coastal areas; (2) the salary differences between inland and coastal areas; and (3) the huge inland market. Therefore, given the continuous presence of these factors, there will be a division of labour between inland and coastal areas. The high technology and export-oriented industries will concentrate on coastal areas such as Guangdong, Shanghai, and so on, while the assembly and processing industries or those industries which required standard skills and domestic-oriented industries on inland areas.

V. THE PROBLEMS OF REGIONAL DIFFERENCES AND REGIONAL POLICIES

The rates of average annual economic growth of Jiangsu, Shanghai, and Guangdong have already been more than 20% since 1992, while those of inland

provinces such as Hunan, though they have achieved rapid economic growth, was only 12%. The economic differences between inland and coastal areas were further enlarged. It is unavoidable to have the regional economic differences enlarged, when the preliminary condition for economic development emerged, which was resulted from marketisation. However, if inland areas wanted to have the economic growth which matched the preliminary condition of economic development, they had to face many problems. The following four points are the problems which the central inland areas have to solve in developing their economies:

Table 6

**Changes in Domestic Investment to Shenzhen and
Investment from Shenzhen to Inland**

Year	Domestic Investment to Shenzhen (Inland → Shenzhen)		Investment from Shenzhen to Inland (Shenzhen → Inland)	
	Number	Amount (100MRMB)	Number	Amount (100MRMB)
1980	37 (0.9)	n.a.	n.a.	n.a.
1981-85	1,701 (41.3)	36.34 (39.1)	n.a.	n.a.
1986-90	2,192 (53.3)	45.27 (48.7)	n.a.	4.70 (10.4)
1991	101 (2.5)	3.20 (3.4)	165	2.50 (5.5)
1992	84 (2.0)	8.09 (8.7)	560	37.8 (84.0)
Total	4,115 (100)	92.90 (100)	n.a.	45.8 (100)

Source: *Yearbook of Guangdong*, 1992, 1993; *Yearbook of Shenzhen Special Economic Zone*, 1992, 1993 and *Nanfeng Ribao*, October 3, 1993.

(1) The modernisation of villages

The state's agriculture policy was the major cause for the slow economic development of Hunan. However, the slow modernisation of Hunan's agriculture was also an important reason. The major problems of Hunan were not just the low quality agricultural products but also the backward consciousness of its peasants. The peasants did not understand market economy and were yet to be liberated from the consciousness of centrally planned economy. Therefore, the reform of peasants' consciousness, the switch to economic crop, and the establishment of town enterprises are the major issues of the modernisation of

villages. Especially, as the decentralisation of power in agricultural policy proceeded rapidly, the agricultural policy of local government should have a great impact on the development of agriculture. Therefore, we have to pay attention to the issue of what policy a local government should take.

(2) The institutionalisation of labour shift

Inland areas such as Hunan had much surplus labour. It was estimated that there were 10 million surplus labour in Hunan. The annual new job positions in the cities of the province was 300,000 and such capacity was not able to absorb the 10 million surplus labour. Even if we established more town enterprises, it still could not solve the problem. Therefore, we have to institutionalise the labour shift to coastal areas where such surplus labour can be used and at the same time improve the productivity of inland areas.

(3) The improvement of investment environment

In order to alleviate the problems of inadequate investment and to make full use of surplus labour in inland areas, we have to improve the investment environment. Especially, we have to attract the enterprises of coastal areas or foreign companies to come to inland areas to build the transportation system to link inland areas to coastal areas. If we can improve the access to coastal areas, enterprises will come to invest in inland areas to take advantage of cheap labour. If we consider the stages of economic development in inland areas, building highways should be given the first priority in the first stage. In addition, we can expect the "line" development effect from highway building.

(4) The favorable measures for foreign capital

In order to attract the foreign companies and coastal enterprises, not only do we have to improve the investment environment, we also need to change the regional policy and the policy of importation of foreign capital. More concretely, we have to develop the economies of inland areas and upgrade the industrial structure of coastal areas. This is in order to attract those foreign companies and coastal enterprises which are labour-intensive and which target the domestic market, to come to invest in inland areas. In other words, if we want to restructure the economies of inland and coastal areas simultaneously, we have to adopt district policy and the policy of importation of foreign capital which are suitable to the stage of economic development of these areas.

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