

Chapter 1

Chinese Economy in the 21st Century and the Strategy for Developing the Western Region

Introduction

The term “development of the Central and Western regions” began to appear in Chinese mass media in the spring of 1999.¹ Later, the “Strategy for Developing the Western Region” became the widely used phraseology. The wording of the “Strategy for Developing” and the way media reported it as the term used by President Jiang Zemin and other top leaders during their inspection tour of the region leave no doubt that it is the politically-tinged phraseology from the start of its usage. Here in Japan, principally because of the strong political overtones of the term, there are views that question the intentions of the Strategy for Developing the Western Region or its real economic impact. But it has to be clearly noted that the phraseology undoubtedly points to one of China’s long-term political and economic problems and also demonstrates the strong determination of the Chinese leadership to address it in earnest. In the political view point, it can be argued that China has to give political considerations to the Western Region = Inland Region, a region which is rather backward economically and also home to many ethnic minorities, for stability of the state and society. In the economic view point, it is becoming necessary to give a real boost to the economy of the Inland Region for China’s long-term economic development into the 21st century when the Coastal Region-led rapid economic expansion since the 1980s is beginning to show signs of losing momentum.

It is too simplistic to characterize the Strategy for Developing the Western Region only as the political campaign. Rather, an analysis of issues related to the Western development should make it possible to shed light on problems confronting China in the 21st century and provide future prospects. Keenly aware of these issues involved, this report is a product of the work by a task force that attempted to make an objective assessment of the realities of the Strategy for Developing the Western-Region and also tried to approach these issues as specifically and multilaterally as possible. Chapter 1 focuses on the economic aspects of the Strategy for Developing the Western Region and substantiates

that this is part of the long-term development strategy toward the 21st century.

The scope of the Western Region as referred to in this paper, unless otherwise noted, covers a total of 12 provinces, cities and autonomous regions, including the 10 conventional Western provinces and autonomous regions (the seven provinces of Sichuan, Chongqing, Guizhou, Yunnan, Gansu, Shaanxi and Qinghai, and the three autonomous regions of Ningxia Hui, Xinjiang Uygur, and Tibet) and two autonomous regions of Guangxi Zhuang and Inner Mongolia.² As for historical statistics, however, the conventional regional classification (the trichotomy of the Eastern, Central and Western regions)³ is followed in most cases for the sake of the continuity of data.

1. 1 Chinese Economy in Structural Changeover

There is a widespread impression that the Chinese economy is continuing to leap ahead. In reality, however, it has been slipping toward stagnation in recent years. The growth rate of gross domestic product (GDP) shrank for the seventh consecutive year after peaking out at 14.1% in 1992, falling to 7.1% in 1999. The growth rate of 7.1% may seem still high. But the real economy shows a symptoms of deflation: production was falling, corporate performance, especially state-owned enterprises, was deteriorating, the unemployment rate stayed high, and price indices dropped for three years on end (see Table 1). While the Chinese economy has repeated cyclical fluctuations previously, the latest one brought home to us that the Chinese economy is now in a period of structural transition where a host of mutually entangled short-term, medium-term and long-term problems exist all at the same time. Moreover, most of these problems are calling for modifications of China’s reform and opening-up policy, or economic development led by the Coastal Region. An analysis of individual problems follows:

Table 1 Changes in Major Economic Indicators

	1996		1997		1998		1999		2000 IQ - IIIQ		2000 plans (%)
	Volume/ Value	Yr/yr change (%)	Volume/ Value	Yr/yr change (%)	Volume/ Value	Yr/yr change (%)	Volume/ Value	Yr/yr change (%)	Volume/ Value	Yr/yr change (%)	
GDP (100 m. yuan)	68594	9.6	74772	8.8	79396	7.8	82054	7.1	62124	8.2	Around 7
Industry (100 m. yuan)	29083	12.5	31752	11.1	33430	8.9	35357	8.5	*17061	11.6	
Agriculture, forestry, fishery (100 m. yuan)	13884	5.1	14211	3.5	14560	3.5					
Food output (10,000 ton)	50454	8.1	49250	-2.4	51230	3.7	50800	-0.8			
Fixed assets investment (100 m. yuan)	22974	14.8	25300	10.1	28406.2	13.9	29876	5.2	***13470	12.9	Around 10
Total wages of staff and workers (100 m. yuan)	9080	12.1	9405	3.6	9297	-1.1					
Annual per-capita average disposable income, urban (yuan)	4838.9	13	5160.3	6.6	5425	5.8	5854	9.3	4719	8.4	4
Annual per-capita average net income, rural (yuan)	1926.1	22.1	2090.1	8.5	2162	4.4	2210	3.8	1500	2.5	
Registered unemployment rate in urban areas		3.0		3.1		3.1		3.1			Around 3.5
Total retail sale of consumer goods (100 m. yuan)	24774	20.1	26843	7.5	29153	6.8	31135	6.8	24336	9.9	7.1
Money supply M0 (100 m. yuan)	8802	18.9	10177.6	15.6	11204.2	10.1	13456	20.1	13895	13.4	
Money supply M1 (100 m. yuan)	28515	18.9	34827	16.5	38954	11.9	45837	17.7	50617	20.8	Around 20
Money supply M2 (100 m. yuan)	76095	25.3	90995.3		104498.5	15.3	119898	14.7	130474	13.4	Around 14
General retail price index		6.1		0.8		-2.6		-3.0			Somewhat higher
Consumer price index		8.3		2.8		-0.8		-1.4			Somewhat higher
Urban		8.8		3.1		-0.6					
State fiscal balance (100 m. yuan)	-530		-582.4		-922.2		-1797		108		-2299
Trade balance (\$100 m.)	122.2		403.4		435.99		291.0		192.0		
Exports	1510.6	1.5	1827	20.9	1837.65	0.5	1949	6.1	1823.1	33.1	
Imports	1388.4	5.1	1423.6	2.5	1401.66	-1.5	1658	18.2	1631.1	38.7	
Foreign loan contracts (\$100 m.)	79.6	-29.5	58.72	-26.2	110	-8.5					
Foreign direct investment contracts (\$100 m.)	732.8	-19.7	510.03	-30.3	521.32	2.2	412.4	-21.30	378.58	27.86	
Foreign direct investment disbursements (\$100 m.)	417.3	11.2	452.57	7.8	455.82	0.7	404.0	-11.4	260.8	-8.7	
External debts (\$100 m.)	1162.75	9.1	1309.6	12.6	1460.4	11.5	1518.3	4.0			
Foreign exchange reserves (\$100 m.)	1050.3	42.7	1398.9	33.2	1449.59	3.6	1547	6.7	***1476.3	-2.8	

Sources: China Statistical Yearbook 1999, China Statistical Abstract 1999, IMF International Financial Statistics, various news reports

Notes: * State-owned industrial enterprises and non-state-owned industrial enterprises with annual sales of 5 million yuan or more.

** Not including investments by collective-owned units and individuals.

*** At the end of June.

1.1.1 Short-term Issues: Economic Recovery and Maintenance of Moderate Pace of Growth

The “buyers’ market” was a vogue word used in commenting on economic developments in 1998.⁴ Suitable or not as an economic term, at least it appears appropriate that the word was used with the intention of highlighting the fact that structural changes never before experienced in China were about to take place in its economy.

The first of such structural changes was the easing of the “shortage of goods” = supply limitations, that had plagued People’s Republic of China (P.R.C.) for years since its founding. More specifically, (1) overcapacity became evident in almost all manufacturing industries following overheated investment in 1992-1993; (2) a surplus of food emerged following a succession of good harvests; and (3) supply limitations eased substantially in energy as well as transportation and telecommunications services, the areas that had previously been the “bottleneck” of China’s economic growth. The newfound oversupply can still be construed as a transitory phenomenon. However, efforts were still under way as of 2000 to cut back excess equipment following the situation described in (1). As for (2), investment in the agricultural sector is being reinforced, while imports of food are becoming easier. In the area of (3), prices in these fields were linked to markets and service providers now have wider channels of raising necessary funds. All in all, it should be noted that the chance of reappearance of the shortage of supply seen often previously is clearly lessening.

The second structural change is the emergence of limitations on demand, or more specifically, the clear slowdown in growth of investment and consumption. The slowdown of investment stemmed largely from the impact of the financial system reform that got into full gear since 1994. Previously, against the backdrop of the chronic shortage of supply, both enterprises and the government tended to expand investment constantly. Besides, investment behaviors were virtually free of effective controls partly because there was no clear mechanism in place to know where the responsibility rested even in case of investment failures, a situation of the so-called “soft budget restraints.” However, this lax environment disappeared with the reform of the financial

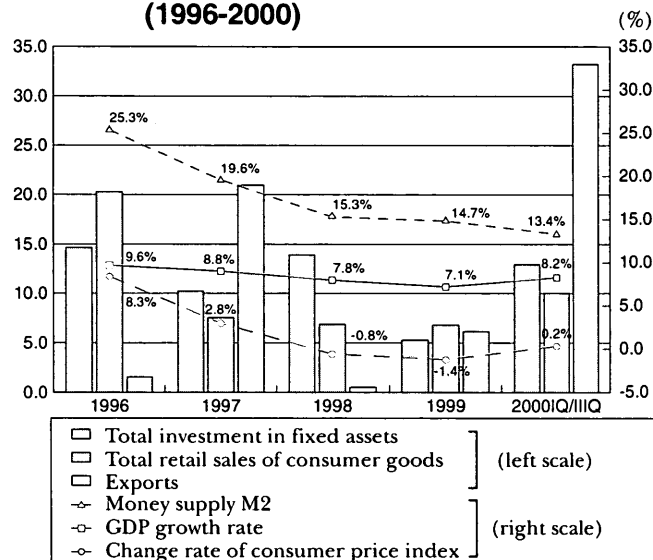
system, and the degree of investment being constrained by purely economic factors increased.⁵ The slowdown of investment in recent years can be explained by the two economic factors of production overcapacity and slumping growth of consumption.

The causes of decelerating consumption include the following: (1) demand for consumer goods has run its course in urban areas; (2) people tended to refrain from spending in the wake of large-scale restructuring measures such as reform of state-owned enterprises and administrative reform; and (3) consumption fell off in rural areas as food prices stopped rising and the expansion of employment lost momentum with the apparent peaking of growth of village and township enterprises. In addition, exports that were expected to make up for slowing domestic demand stopped growing as fast as before in the wake of the Asian currency crisis in July 1997. With the limitations on export-dependent growth becoming obvious, the government turned its eyes more seriously to the need to expand domestic demand.

Even so, it took some time for the government to take measures in the face of the changing trends in the Chinese economy. At last in March 1998, the National People’s Congress (NPC) endorsed the government’s plan to expand domestic demand. But initial fiscal policy was one of austerity and it was not until August of the same year that the government actually issued deficit-covering bonds (worth 100 billion yuan, or some ¥1.3 trillion, and equivalent to 9.3% of the year’s state fiscal expenditures). Behind the delay in policy switchover could be the resolute stance of the cabinet of Premier Zhu Rongji, that came onstage at the same NPC, to pursue various reforms, including reform of state-owned enterprises, financial system reform and administrative reform. As described later, these reforms were designed as responses to the medium-term problems in the Chinese economy, but in this regard, there was an apparent mix-up of short-term and medium-term problems. Nevertheless, the government, becoming aware that reforms could not be pushed ahead while the economy kept limping, decided to mobilize fiscal and monetary policies continually as an effort to boost domestic demand. Public investments formed the central pillar of the policy of domestic demand expansion, and the Inland Region drew keen attention as a destination of such investment.

It took some two years before the series of government policy measures began to produce intended results. With the GDP growth of 8.2% in the first nine months of 2000 showing the first upturn in eight years, the Chinese economy has at last come to stand on its feet (see Figure 1). The policy to expand domestic demand, which started out as an answer to short-term problems, has now been upgraded to "one of the long-term strategies for China's economic development,"⁶ and the government is expected to continue implementing that policy.

Figure 1 Rise/Fall of Key Economic Indicators (1996-2000)



Source: Compiled by the author on the basis of *China Statistical Yearbook 2000* and various news reports

1. 1. 2 Medium-term Issues: Building of a Socialist Market Economy and Preparations for Accession to WTO

Since first proposed at the 14th National Congress of the Chinese Communist Party (hereafter CPC) convened in October 1992, the economic system that China has been striving to build as a medium-term task is a "socialist market economy." According to the official explanation, it is an economic system where "the state is responsible for macroeconomic regulation but the market plays a basic role in the distribution of resources, within the fundamental framework of socialist public ownership." Specific details of the socialist market

economy were interpreted in various ways or proposed on a trial-and-error basis. For example, as for the principle that the "socialist public ownership" should be at the core of the new economic system, it was at first interpreted literally as meaning that the publicly owned sector should occupy over half of the overall economy. At present, however, the dominant interpretation is that state-owned enterprises should withdraw from all but several crucial sectors and the development of non-state-owned enterprises should be encouraged. Similarly on the state's macroeconomic regulation, the general trend is for the state's role to be limited to indirect control through fiscal and monetary policy means and the like.

In the view of this author, the reform goals set forth by the Zhu Rongji administration at its inauguration, the "realization of the three objectives," (*sange daowei*) are important to understand a broad outline of the "socialist market economy."⁷ The three objectives are (1) reform of state-owned enterprises; (2) reform of the financial system; and (3) administrative reform. Specifically, in the reform of state-owned enterprises, the goal is to have large and medium-sized state-owned enterprises shake off their deficits and establish a modern enterprise system in China. In the financial system reform, the goal is to strengthen the role of the central bank (People's Bank of China) and have the Industrial and Commercial Bank of China and other banks cut off from the state to operate as commercial banks stand on their feet. For the third objective of administrative reform, organizations of the central government (the State Council) are to be slimmed down by 30% and the government staff is to be slashed by half. From the standpoint of the economic system, the first goal is an effort to create enterprises that could be the main body of the market economy. The second goal represents an effort to expose the financial sector, which is backward relative to the production sector, to market principles and improve the means of macro-control of the economy. The third reform goal can be regarded as an effort to have the administrative sector adapt to the market economy.

Another thing noteworthy about the stance of the Zhu Rongji administration is that it is trying to push ahead with the reforms described above by using a further opening-up to the outside world, or accession to the World Trade Organization (WTO), as an opportunity and also as pressure. The

WTO accession can be described as “pressure” because China has made sort of “international commitments” in making various promises to other countries in paving the way for its accession to the WTO and China cannot afford to renege on them. Further, the opening of domestic markets would expose various industries and enterprises to international competition, and they would inevitably have to accept international business rules. Here again, the problem is the tardy internationalization of the Inland Region economy. While WTO rules allow for certain protectionist policy measures for economically backward regions, that does not lessen the need for China to accelerate the opening-up and internationalization of the Inland economy.

The Tenth Five-Year Plan (2001-2005) is still under preparation when the author was writing this paper. The “Chinese Communist Party Leadership’s Proposal for the Tenth Five-Year Plan” (hereafter the “Proposal”), which set forth the basic policy for that Plan, and the Central Conference on Economic Works that showed the economic management policy for fiscal 2001 both recognized China’s joining the WTO as the “chance and challenge,” calling for a quickening of preparations for the accession.

1. 1. 3 Long-term Issues: Pursuit of “Sustainable Development”

The 21st century is a century of special significance to China. It is because of the “three-stage development plan,” that envisaged the doubling of gross national product (GNP) from 1980 by 1987, when China’s reform and open-door policy started in earnest, to achieve the living standard of “warmth and adequate food” (the first stage), another doubling of GNP by 2000 to achieve the living standard of “fairly well off” (the second stage), and then “the raising per-capita GNP to the level of a semi-developed country to basically achieve modernization” by the middle of the 21st century (China will mark the centennial of its founding in 2049) (the third stage).⁸ Based on the actual performance so far, the plan’s second stage was achieved in advance by 1997 after the goal was changed to the “quadrupling of per-capita GNP.” In line with the “three-stage development plan, the “Proposal” for the Tenth Five-Year Plan put forward the goal to “double gross domestic product (GDP) (total amount: note by the author) in 2010 over

2000.” The goal is achievable if the growth rate of about 7% can be sustained, and beyond that goal lies a possibility of achieving the goal of the third stage.

The question is whether the economic growth of that magnitude can be sustained. The concept of “sustainable development” is not China’s patented idea. But it should be recognized that for China, the sustainable development is a crucial long-term issue that could affect and determine the realization of the above-mentioned development plan, or further, the “legitimacy” of the present government. Moreover, in pursuing sustainable development, the two imbalances brought about by the Coastal Region-led economic development were called into question: the imbalance in industrial structure and the imbalance between regions. Economic development during the era of reform and opening-up focused on the labor-intensive manufacturing sector by industry, on the non-state-owned sector by ownership, and on the Eastern Coastal Region by region. Because of this, the imbalance in industrial structure that had continued unchecked since the days of the planned economy, that is, too much weight given to manufacturing, widened further, and no breaks were put on the expansion of regional disparities. These two problems came to be recognized as impediments to sustainable development, and the two long-term development strategies adopted in order to remove these hindrances are the economic restructuring and development of the Western Region.

First, let us look at the economic restructuring strategy, that includes (1) adjustments of the rural economic structure and (2) advancement of the industrial structure. In the restructuring of the rural economy, the key is how to deal with the “three agricultural problems”: problems related to agriculture itself, rural communities and farmers. Important issues in the agricultural problem are the raising of productivity with a view to securing a basic self-sufficiency in food and measures to deal with ecological constraints (constraints that stem from the ecological environment such as land and water). In order to increase productivity, physical measures such as the introduction of new varieties and technologies and policy measures to promote joint management and diversification of farming operations are to be taken.⁹ In responding to the ecological constraints, it is required to spread farming methods that can save on land and water. The point

in dealing with the problem of rural communities is to develop industries other than agriculture to advance the rural industrial structure. To this end, it will be necessary to reorganize township and village enterprises that have been stagnating in recent years. Specifically, restructuring of deficit-running enterprises and the separation of enterprises from local governments are under way. The key issue in the problem of farmers is a narrowing of the income gap with urban residents. Regarded as important in this field lately is the policy to build small cities in rural areas to develop them as economic and cultural centers of rural communities. Construction of small cities is thought to have such advantages as a narrowing of urban-rural gaps through a decline in rural populations, an industrial accumulation by gathering township and village enterprises together, and small cities serving as bases for industry-like management of farming operations and provision of socialized services to the agricultural sector.

In the advancement of the industrial structure, of great importance are the withdrawal of state-enterprises from industries other than specified strategic sectors to bring greater efficiency into the management of the state-owned sector as a whole, development of non-state-owned enterprises centering on areas from which state-owned enterprises bowed out, and promotion of tertiary industries. Concerning state-owned enterprises, the decisions were taken at the fourth plenary meeting of the CPC's 15th Central Committee in September 1999 to have state-owned enterprises maintain the dominant status in important industries such as military industry, natural monopoly industry, public utilities, pillar industry, and high-technology industry, but to allow diversified forms of ownership to develop in other sectors.¹⁰ As for non-state-owned enterprises, particular emphasis came to be laid on the development of small businesses. Small businesses, represented by township and village enterprises, saw rapid development amid the reform and opening-up, contributing to the high economic growth together with foreign-capital companies. In the 1990s, however, they became visibly weaker in terms of the ability to provide new job opportunities and management efficiency. Recognizing the need of policy and financial support for their further development, the government began to take steps to improve comprehensive policy measures for small businesses,

including the legislation of the "law of small business" and the establishment of credit guarantee and lending systems tailored for small businesses. As for tertiary industries, high expectations are being placed on the services sector for its capacity of employment and for its effect in stimulating new consumption demand. Actually, the share of the tertiary sector in China's economy is too small even for a developing country. In 1998, the share was just 36%, compared with 46% for India.¹¹ As mentioned in this Section's 1, demand for "goods" has hit the ceiling centering on urban areas and there is a pressing need to make the economic structure more "services-oriented."

1.2 Western Development as Long-Term Economic Development Strategy

Another long-term economic development strategy adopted with the aim of securing sustainable development is the Strategy for Developing the Western Region. This section will briefly retrace the circumstances of the past policies for development of the Inland Region and bring forward characteristics of the latest strategy for developing the West.

1.2.1 Historical Trends of the Inland Region Development Policies

The present stark contrast in the state of development between the Coastal Region and the Inland Region gives the impression that the Inland Region has been made light of all the time. But that is not the case. Roughly speaking, the Inland Region had received strong support from the period right after the founding of P.R. China until the launch of the reform and open-door policy. That support weakened between the start of reform and opening-up and 1992, but support measures are again becoming stronger gradually since then.

[Period of strong support: 1949-1978]

Economic construction work in this period was characterized by massive investments in the Inland Region from (1) the need to shed the aftereffects of the colonial rule and war, and from (2) the necessity of national defense. As for (1), 70% of industrial and transportation infrastructures were concentrated on the Coastal Region, and there was

a need to redress this imbalance, which was totally out of proportion with the distribution of natural resources in the Inland Region. Regarding (2), China has long followed the policy of transferring the center of its economic activities to the Inland Region against the backdrop of the tensions in the international situation, and this policy continued into the 1970s. Table 2 confirms the importance given to investment in the Inland Region (the table's classification of regions is in line with the conventional trichotomy). For example, of the 156 key projects in the early period following the founding of China, four-fifths were for the Central and Western regions (44 projects for the Western Region alone). Under the Third Five-Year Plan (1966-1970), under which the "construction of the third front" ¹² reached the climax, the Central and Western regions took up 64.7% of basic construction investment (34.9% for the West alone).

This investment policy led to the following achievements and problems: (1) the industrial infrastructure was formed in a relatively short period of time in the Central and Western regions; (2) disregard of industrial locations in making

investments resulted in a low efficiency in investment; (3) groups of enterprises built with investments in those years became "enclaves" with little connection with the local economies of the Central and Western regions; and (4) no satisfactory results were produced from the standpoint of correcting regional disparities.¹³

[Period of Weak support: 1979-1992]

The reform and open-door policy was launched during this period, bringing great changes in regional development policy. Specific features included: (1) priority was given to investment efficiency, and development was pursued in disregard of regional disparities; (2) consequently, the focus of development shifted from the Central and Western regions to the Eastern Region; (3) as a result of the introduction of market mechanism, entities of development became diversified and regional macroeconomic policies were implemented (for example, the opening-up of specified areas to the outside); and (4) local governments took more initiatives in development. These policy changes were made possible by Deng Xiaoping's "get-rich-first" doctrine (regions and groups with favorable conditions are allowed to become wealthy first, and then they are expected to provide assistance to backward regions). With the permeation of Deng's pragmatic way of thinking that a certain degree of inequality should be tolerated for the sake of accelerated development, the Sixth Five-Year Plan (1981-1985) gave a larger share of basic construction investment to the Eastern Region than that for the Central and Western regions (see Table 2). The Seventh Five-Year Plan (1986-1990) adopted the policy of phased regional development to "accelerate development of the Eastern Coastal Region, give priority to the Central Region for development of energy resources and raw materials, and prepare for development of the Western Region."¹⁴

Because of the change of policy, (1) the Eastern Coastal Region took advantage of its favorable conditions to lead the nation in economic growth and a new economic center was born in the Pearl River delta region of Guangdong Province, the site of the open-door experiment, but (2) human resources and funds flowed out of the Central and Western regions to the Coastal Region, and (3) the gap between the Eastern Region and the Central and Western regions began to widen.

Table 2 Share of East and West in Basic Construction Investment (1953-1999)

Period	East	Central and West	Central	West
1953-57 (1st 5-Yr plan)	36.9	46.8	28.8	18.0
1958-62 (2nd 5-Yr Plan)	38.4	56.0	34.0	22.0
1963-65 (Adjustment period)	34.9	58.2	32.7	25.6
1966-70 (3rd 5-Yr Plan)	26.9	64.7	29.8	34.9
1971-75 (4th 5-Yr Plan)	35.5	54.4	29.9	24.5
1976-80 (5th 5-Yr Plan)	42.2	50.0	30.1	19.9
1981-85 (6th 5-Yr Plan)	47.7	46.5	29.3	17.2
1986-90 (7th 5-Yr Plan)	51.7	40.2	24.4	15.8
1991-95 (8th 5-Yr Plan)	54.2	38.2	23.5	14.7
1996	53.0	7.6	23.6	14.0
1997	52.4	39.2	23.7	15.5
1998	52.2	39.2	22.2	17.0
1999	52.1	39.6	22.5	17.1

Note: Regional percentage figures do not add up to 100% because locomotives, ships, aircraft and other items purchased nationally are not included in region-by-region investments.

Source: A table taken from Chen Yao, *Research on State Development Policy for the Central and Western Regions*, Economic Management Press, 2000 (in Chinese), with partially modification.

Original source: *China Statistical Yearbook on Fixed Asset Investment 1950-1995*, China Statistics Press, 1997, *China Statistical Abstract*, 1998, 1999, 2000, China Statistics Press, 1998-2000

[Period of the present policy, transition period of gradually increasing support: 1993-2000]

While the period of high economic growth began amid the investment boom touched off by Deng Xiaoping's 1992 "Southern Tour Lectures" that effectively called for the "second reform and opening-up," regional disparities grew larger.

As Figure 2 shows, the widening of disparity was rather dramatic, and regional policies had to be adjusted by taking into consideration the growing discontent among people in the Central and Western regions. Regional policies during this period were characterized as follows: (1) while investment efficiency was still considered important, "coordinated development among regions" was also regarded as important; (2) priority of development was still given to the Eastern Coastal Region, but consideration was given also to the acceleration of development of the Central and Western regions; and (3) policy measures began to be implemented systematically to support the development of the Central and Western regions. As for (1) and (2), the Eighth Five-Year Plan placed renewed emphasis on the principles of rational division of labor, coordinated development among regions and "get-rich-together" (regions and individuals of all regions). In response, the State Council (the central government) took concrete measures, such as

Table 3 Basic Data on 3 Major Regions (1999)

	Area of land (10,000 square km; %)	Population (10,000; %)	GDP (100 m. yuan; %)	Per-capita GDP (yuan; index)
Eastern Region	129.83(13.5)	51107(41.1)	51631(58.8)	10103(1.00)
Central Region	285.25(29.7)	44341(35.7)	24207(27.5)	5459(0.54)
Western Region	545.10(56.8)	28771(23.2)	12003(13.7)	4172(0.41)

Note: Eastern Region: Beijing, Tianjin, Hebei, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong, Guangxi, and Hainan

Central Region: Shanxi, Inner Mongolia, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei and Hunan

Western Region: Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang

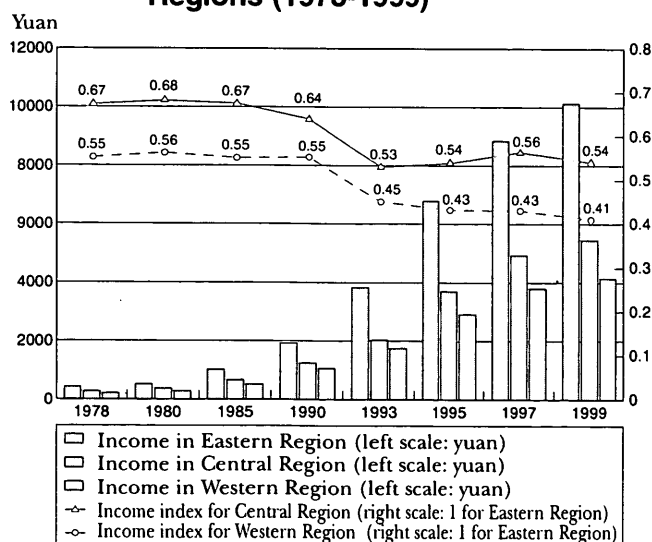
Source: Compiled by the author

Original source: *China Statistical Yearbook 2000*.

"the decision concerning acceleration of development of township and village enterprises in the Central and Western regions" (establishment of the fund for lending to township and village enterprises in the Central and Western regions, February 1993), "an outline of the state industrial policy in the 1990s" (switch of emphasis in macroeconomic policy from regions to industries, March 1994), and "State Seven-Year Plan to Help 80 Million People Get Out of Poverty" (strengthening of poverty relief measures centering on the Central and Western regions, April 1994). In addition, "Ninth Five-Year Plan and an outline of long-term objectives toward 2010" (March 1996) put forward a scheme to divide the country into "seven major economic zones" and seek mutually cooperative development of all regions by taking advantage of respective strength,¹⁵ and unveiled six items of support measures for the Central and Western regions.¹⁶

As a result of a series of these policy steps, the expansion of the regional gaps seems to be somewhat easing (see Figure 2). But this may have reflected the slowdown of the overall Chinese economy. Moreover, the policy measures taken are not free of problems. First, policy objectives are not clear and quantified. In discussing rectifying the gaps, policies to be taken should be different depending on whether to narrow the gap in per-capita GDP or the gap in per-capita income. The former task would require investment policy, while the latter would call for a plan for redistribution of income. The present policy package appears to aim

Figure 2 Income Gaps between 3 Major Regions (1978-1999)



Note: Per capita GDP.

Source: Compiled by the author

Original source: *China Statistical Yearbook*, editions of respective years

for the former, but that policy direction has never been clarified or quantitative goals explained. Speaking a bit maliciously, the call for correction of the gap is no more than a slogan, not something proposed as an attainable goal. Second, the coverage of support is too broad. The Central and Western regions consist of a total of 19 provinces and districts, which account for 87% of the national land and 59% of China's total population. For assistance to be efficiently provided, recipients should be classified and aid measures should be fine-tuned to suit each of classified groups. Third, policy tools are in short supply. The present policy focuses on the provision of funds and materials, but its effects are limited. Rather, it seems necessary to transfer various administrative powers to local governments concerned and increase the degree of institutional leeway.

1. 2. 2 Features of the Strategy for Developing the Western Region

Against the backdrop of the history of Inland Region development policies surveyed above, how can the proposed Strategy for Developing the Western Region be characterized? The characteristics of the strategy can be summarized as follows on the basis of the examinations of relevant materials and hearings of officials of various Chinese organizations and researchers conducted by this task force:

(1) It is a national strategy with a perspective of development in the 21st century

There is a broader awareness than before of the impact the Western Region development, or development of the Inland Region, will have on the overall national economy of China. Studies on the Strategy for Developing the Western Region are too numerous to enumerate. Many of them commonly recognize that the development of the Western Region is necessary in order to secure conditions required for sustainable development, including (1) guarantee of the supply of natural resources; (2) contribution to the expansion of domestic demand; (3) protection of the ecological environment; and (4) security of long-term social stability. Concerning the supply of resources, development of the Western Region is expected to help ease an anticipated shortage of energy, land

resources, water resources and human resources in the 21st century. In relation to the expansion of domestic demand, aside from short-term contribution in terms of infrastructure construction demand, an estimated 500 billion yuan worth of new demand (equivalent to 16% of total retail sales of social consumer goods in 1999) can be created in the Western Region if the region grows to have consumption demand commensurate with its share of China's total population. As for environmental implications, it has been underlined that efforts on the part of the Western Region is essential in order to protect the ecological environment, described as the nonrenewable resources. Concerning social stability, there is a concentration of problems in the West that could threaten social stability, including the huge gap in employment opportunities and income, the emergence of local protectionism and ethnic minority issues. It has been argued that the only way to solve these problems is through the development of the Western economy.

(2) Central government's support is more comprehensive than previously

The Western Region's share of China's basic construction investment still remains low at around 17%. But the central government, on top of the "10 major projects" ¹⁷ for infrastructure construction in the West, has come up with the three gigantic projects: "transmission of natural gas from the Western to Eastern region," "transmission of electricity from the Western to Eastern region," and "south-to-north water diversion project." This investment policy is reasonable in light of the current macroeconomic conditions in China, because the Eastern Coastal Region already has an accumulated excess of supply capacity and investment in the Western Region will be more effective in finding new areas of growth in the face of the domestic demand shortfall as well as in avoiding redundant construction. In addition to the investment policy giving greater weight to the Western Region, the central government also has promised the "three 70% policy" of the priority allocation of funds raised at home and overseas (allocation to the West of 70% of state fiscal assistance, funds raised through government bond issues, and loans from foreign governments and international organizations). It has also adopted preferential policy (mainly preferential tax measures) to induce the flow of domestic

and foreign capital into the Western Region.

(3) Priorities in the development strategy are clear

The development strategy gives priorities to "improvement of infrastructure," "protection of the ecological environment," "industrial restructuring," "emphasis on science and technology, and education," and "expansion and deepening of the reform and opening-up." This paper already covered the first two priorities. The "industrial restructuring" is intended to turn the industrial structure of the Western Region into a more market-oriented structure from the resources-dependent one formed during the planned economy era that emphasized sheer scale such as the munitions industry. The "emphasis on science and technology, and education" is an issue of greatest urgency for China to deal with the shortage of manpower with scientific and technological backgrounds that is proving to be a major bottleneck in development of the Western Region. The "expansion and deepening of the reform and opening-up" call for the thorough implementation of the reform and open-door policy as the driving force for achieving above-mentioned objectives.

(4) It is a systematic development strategy

Providing financial and materials support to the Western Region is, of course, important to rectify the existing gap. But development efforts by the West itself are essential in order to ensure long-term development of the region. Moreover, development should not be just industrialization but more comprehensive with due heed given to finding a good balance with the promotion of agriculture and protection of the ecological environment. On this score, the Strategy for Developing the Western Region has apparently shifted the emphasis from the conventional support from the central government to comprehensive development by the Inland Region itself.

(5) Priority is given to the problem of ethnic minorities

Considerations given to the problem of ethnic minorities are evident in the geographical demarcation of the Western Region, which, other than the conventional 10 provinces and cities, in-

cludes the Inner Mongolia Autonomous Region (previously part of the Central Region) and the Guangxi Zhuang Autonomous Region (previously the Eastern Region), as well as the Beianshi Autonomous Prefecture of Hubei Province and Xiangxi Autonomous Prefecture of Hunan Province, which are dwelled by Tujia and Miao minorities. Our hearings in China found that Hainan Province, which has many communities of ethnic minorities, lobbied the central government in vain to join the Western Region.

The following section discusses more specifically how the Strategy for Developing the Western Region is going to be carried out, in line with the Tenth Five-Year Plan.

1.3 Tenth Five-Year Plan and the Strategy for Developing the Western Region

Chapter 4 of this paper addresses in detail the positioning of the Strategy for Developing the Western Region and specific projects under the Tenth Five-Year Plan. This section covers some key points on the basis of the "Proposal of the Central Committee of Communist Party of China concerning the Tenth Five-Year Plan" (October 2000, hereafter "Proposal").

1.3.1 Support for the Western Region

The "Proposal" had a section on the "implementation of the Strategy for Developing the Western Region and promotion of cooperative development of regions," enumerating a variety of support measures for the West, including (1) major construction projects in areas of transportation, telecommunications, electricity transmission networks and urban infrastructure, (2) policy measures to support development of the Western Region, and (3) infusion of construction funds and increased fiscal subsidies. Section 2 dealt with major construction projects. The "Proposal" itself did not specifically address the supportive policy measures or financial aid. But the Chinese government has already unveiled a host of preferential measures, including the application of the reduced income tax rate of 15% for another three years for foreign-capital enterprises investing in the Central and Western regions even after the "two-year exemption and three-year reduction" scheme (exemption

from the income tax for two years and the application of the low tax rate for a period of three years) expires. Domestic-capital enterprises investing in government-designated industry sectors can also take advantage of the low tax rate of 15% for “a certain period of time.” As for financial assistance, state-affiliated financial institutions have set up special lending quotas for the Western Region. For example, State Development Bank has decided to set aside up to 140 billion yuan over the next five years.

In explaining the “Proposal”, Premier Zhu Rongji stated that “the government should promptly announce preferential policy and measures to support the Strategy for Developing the Western Region, designed to strengthen the fiscal subsidies system for regional government and investment of construction funds, and encourage investment in the West by foreign-capital enterprises and from other regions of China.”¹⁸ China seems prepared to offer a variety of additional preferential policy measures in the future.

1.3.2 Policies to Be Pursued by the Western Region

As policies to be addressed by the Western Region itself, the “Proposal” listed (1) promotion of industrial restructuring, (2) development of education in science and technology, (3) training, appointment and recruitment of human resources, and (4) development by setting priorities while taking advantage of key transport channels such as the Eurasian Continental Bridge and the Yangtze River waterway. The first three policies were outlined previously, and the central government has already made public plans to provide all sorts of indirect support to assist the Western Region’s own development efforts. In the area of industrial restructuring, for example, the central government will transfer to regional governments administrative powers to decide on a variety of transport fares, resources prices and product prices, and permit the BOT formula¹⁹ for infrastructure construction projects. As for human resources, the central government will abolish the expenses universities or other organizations collect when staff are transferred and also allow regional governments to charge appropriate amounts on students in order to help ease their burdens.²⁰

On the priority-guided development, the “Proposal” emphasized the implementation of the strat-

egy focused on developing regional cores first to pace development of surrounding areas by saying that the “development should be pushed forward according to predetermined priorities, by connecting points with lines and by pulling areas with points.” The afore-mentioned “10 major projects” are concentrated in Xi’an, Chongqing, Chengdu and Lanzhou, making it likely that these cities will serve as regional cores for early development.

1.3.3 Development Policies for the Eastern, Central Regions

The “Proposal” mentioned development policies for other regions, after the policy for development of the Western Region as described above. On the Eastern Region, Premier Zhu Rongji offered the following explanation in the “Proposal”: “The Eastern Coastal Region must in various ways support development of the Western Region actively, participate in it, and encourage an acceleration of development of the Central and Western regions. This is necessary for continued development of the national economy as a whole, and will create new space and conditions for further development of the Eastern Region itself. Implementation of the Strategy for Developing the Western Region does not at all mean that development of the Eastern Region should be allowed to decelerate. Development of the Eastern Region had been and remains to be the very important force to support the overall national economy financially, materially and technologically, and it is also the condition indispensable to support development of the Western Region and accelerate the advancement of the Central and Western regions.”²¹ This passage of Zhu’s explanation indicates that the central government, while acknowledging the role of the Eastern Coastal Region as the engine of China’s economic development, is encouraging the East to actively participate in development of the Western Region.

The “Proposal” called on the Central Region (1) to make good use of its geographically advantageous position cutting the national land vertically from north to south and linking the East and the West, (2) to take advantage of rich resources in the region, and (3) to promote the agro-industry based on its well-developed agriculture. These points are almost a rehash of the “seven major economic zones” scheme of the Ninth Five-Year Plan, offer-

ing nothing fresh. Thus, the central government is essentially telling the Central Region to rely on self-help efforts for development.

1.4 Assessment and Prospects

The Strategy for Developing the Western Region emerged against the backdrop of the structural changes of the Chinese economy as reviewed in this chapter. While China gradually systemized individual policies adopted to respond to the changes that took place in the past few years, it also formed specifics of the Strategy for Developing the Western Region. In taking an important policy initiative, China follows the process of first drawing up a broad framework of a state strategy, emphasizing the necessity and effectiveness of that policy initiative, and then having ministries concerned develop concrete policy measures within the framework. Consequently, the Strategy for Developing the Western Region has come to take on overtones of a political campaign. Keeping such things in mind, this section evaluates the Strategy for Developing the Western Region from the aspects of its objectives and methods being adopted.

1.4.1 Objectives and Methods

As a matter of the fact, the "objectives" of the Strategy for Developing the Western Region have never been spelled out clearly. For example, as discussed briefly in Section 2, policy emphasis should be different depending on whether the goal of rectifying the gap is aimed at per-capita GDP or per-capita income. These points have yet to be clarified. However, in the policy-making process as mentioned above, the consensus is being gradually formed on the strategy's five immediate priorities: (1) infrastructure development; (2) protection of the ecological environment; (3) industrial restructuring; (4) greater weight on science and education; and (5) broadening and deepening of reform and opening-up. Strictly speaking, these priorities are just means of development. But they are being recognized as intermediate objectives as all of them take considerably long years to implement.²² Supposing that these five items are the intermediate objectives, this section evaluates methods of realizing these objectives.

(1) The development of infrastructure is in

fact intended to consolidate the foundation for the Strategy for Developing the Western Region, and the central government has a large role to play in the implementation process. Construction of transportation and communications infrastructure in the Western Region is unlikely to be commercially viable in many occasions. The central government has to take the initiative in promoting infrastructure development because development of the West would never become a reality without significant improvement in infrastructure. At the same time, as mentioned in Section 3, the central government took the action to transfer to regional governments authority to determine levels of transportation fares as well as prices of various resources and products as a way to encourage them to show their own initiatives for development.

(2) Protecting the ecological environment is the policy of high urgency not only for the West but also from the standpoint of preserving the whole national land as shown by the devastating flooding along the Yangtze River in 1998. Here again, the central government has a big role to play. For example, protection of natural woodlands in upstream areas along the Yangtze River and the Yellow River, and protection of grasslands and woodlands to prevent desertification in the Northwest, Inner Mongolia and other places are being financed by various "special funds" (fiscal subsidies for specified use). Specifically, food is provided in exchange for not felling plants and trees, and individuals (mostly farmers) undertake the protection of woodlands and grasslands under contract. This is also an example of an endeavor to have people act on their own.

(3) As discussed in Section 3, industrial restructuring is concerned with adjustment of the West's unique economic structure different from that of the national economy as a whole. Thus, regional governments and enterprises need to take their own initiatives. In the 21st century believed certain to witness an acceleration of moves toward a market economy and further opening to the outside, the Western Region needs to ascertain its own competitive advantage and develop policies to make good use of it, or policies to develop competitive advantages of industries and enterprises. What the central government can do is preparing preferential measures (mainly favorable tax treatment) to help prompt foreign-capital enterprises and domestic high-technology companies to invest in the West-

ern Region.

(4) Giving particular importance to science and education is the policy of the state, but the Western Region itself needs self-help efforts as well as cooperation and partnership with the central government. The central government will take measures to encourage the transfer of science and technology as well as people with expertise to the West, while regional governments are called upon to improve the environment to attract technology and human resources.

(5) The broadening and deepening of reform and opening-up is the driving force in achieving the above-listed objectives. As for reform, for example, state-owned enterprises need to be reorganized thoroughly to develop the non-state-owned sector, such as collective-owned, individuals or private units, as main players for development. As for the open-door policy, the doors must be opened wider in order to accept funds, technology and business management know-how from both domestic and foreign sources. More than anything else, because the development formula of the planned economy era is no longer applicable, new ideas, new methods and new systems needed to be studied and implemented to accelerate development.

1. 4. 2 Assessment

Compared with the past policy for Inland Region development, the Strategy for Developing the Western Region is characterized by the central government's stance of letting the Western Region itself play out its potential through policy inducement instead of direct aid, and having regional governments, enterprises or individuals take their own initiatives even when the central government has to play a leading role in some areas. Generally speaking, the new stance can be appraised as a market mechanism-oriented policy and a policy backed up with expectations that regional governments as well as enterprises in the West will grow up to become independent players for the region's future development.

To begin with, as shown in Table 3, conditions for development of the Central and Western Inland regions in the early 21st century are quite different from those for the Eastern Coastal Region in the past. From the 1980s through the mid-1990s, the Eastern Coastal Region saw smooth development under favorable conditions described in

Table 4. By the international standard, the region has already left the low-income stage (per-capita income of up to US\$760 under the World Bank standard) and reached the middle-income stage (the same standard defines a lower middle-income country as that with per-capita income of between US\$761 and US\$3,030, and the Coastal Region has reached this level). On the other hand, while the Central and Western Inland region still remains in the initial stage of industrialization, circumstances surrounding the West have turned remarkably harsher. Moreover, as the relative weight of the central government's finances in the national economy has declined considerably and the central government's functions in the redistribution of income and support for least-developed regions are contracting, the Central and Western regions have to recognize that they basically have to rely on their own resources for development.²³ The Central and Western regions have to begin with the fostering of competitive enterprises and industries, and in such a stage, policy measures have limitations on their effectiveness. Nevertheless, the following points need to be mentioned.

They are: (1) present policy measures are far from sufficient, even when their roles are limited to realizing the intermediate objectives examined above; (2) there is a lack of policy planning capabilities, awareness of the market economy, and awareness of the opening-up to the outside world on the part of regional governments and enterprises in the Western Region; and (3) there is no blueprint for the objectives of the Strategy for Developing the Western Region further down the road, that is, the ultimate objectives of the autonomous development of the West, its acceleration and the narrowing of the disparity with the Eastern Coastal Region. Regarding (1), the State Council announced the "Notice on Some Policy Measures regarding the Strategy for Developing the Western Region by State Council"²⁴ at the end of 2000. The notice put together policies and plans so far individually unveiled and the clarified the scope of application (the West's 12 provinces, cities and autonomous regions) and the period of application (2001 through 2010). Attention has to be kept on whether further policy measures and legislative measures will be taken at the National People's Congress to be convened in March 2001.

Table 4 Differences in Economic Development Conditions for the Eastern and Western Regions

	Eastern Region in 1980s through Mid-1990s	Central, Western regions from late 1990s to first 20 years of the 21st century
Economic growth pattern	Quantitative expansion	Limits on quantitative expansion
Farming economy	Increased output and increased revenue	Increased output, but low quality, low efficiency
Industrial economy	Low-cost supply of factors of production (natural resources) Promotion of high industrial growth by expansion of processing capacity	Rise in cost of resources development Single-layer industrial structure (development and primary processing of resources) Insufficient industrial competitiveness due to worsening of relative profitability and terms of trade
Supply and demand	Shortage of supply Industry developed to fill the shortfall of supply capacity	Relative excess of supply Industry needs to enter already saturated markets to find places for survival
Relationship between regional development and transportation conditions	Geographical advantage of being coastal region	Geographical disadvantage to be offset with investment in transportation infrastructure Rise in transportation costs affecting competitiveness
Policy environment	Preferential policy in line with market adjustments	Regional policy to compensate for market failure
Opening-up stance	Protection of domestic market, opening up to outside through preferential policy, protection of infant industries	Opening of domestic market increasingly more enterprises exposed to pressure of international competition

Source: Jin Bei: *"Economic Development in Central and Western Regions calls for new ideas"* (*Economic Development in Central and Western regions calls for new ideas*, compiled by the Chinese Geo-economics Society, 1999, in Chinese)

1. 4. 3 Prospects

In the hearings conducted by the task force, Chinese researchers and policy officials recognized the significance of the Strategy for Developing the Western Region and its timely proposal, but still had reservations on how to evaluate the strategy. They said development policies at various levels and with various time schedules are under discussion simultaneously, adding that it is difficult to put all of them on the same table for assessment. That is a reasonable argument. Convincing prospects offered during the hearings are: (1) the investment climate in the Western Region will show some improve over the next 10 years or so through increased investment in infrastructure and protection of the ecological investment; and (2) economic restructuring will show a measure of success, and the pace of economic growth and the level of public services come closer to the national average.²⁵

To be honest, it is hard to make any predictions for beyond that time. This author has the following outlook: the disparity between the Western and Eastern regions remains considerably large until around the middle of the 21st century. While the Western market grows in importance to the East that is exposed to international competition following China's accession to the WTO, the Western

market will have high hurdles in place for entry by foreign-capital enterprises. Thus, the East will join international competition by fencing around the West as its backyard market. China will be using the domestic disparity to its advantage.

When people in Japan discuss development of China's Western Region, their points of interest often concentrate to whether the domestic disparity can be contracted or it is possible to protect the ecological environment. What China is trying to do, as discussed in this chapter, is to have regions with potential develop first based on the market mechanism, and then prop up the Western economy. It is desirable to discuss this issue by accurately understanding China's intentions. One more thing that has to be pointed out has to do with Japan's policy on economic cooperation with China. In 1999, the Japan International Cooperation Agency (JICA), in a review of its policy on economic cooperation to China, selected the "particularly poor areas of the Central and Western regions" as the future priority target areas.²⁶ This position itself seems to be very reasonable. In implementing economic assistance, however, more specific examinations would be necessary on what actual benefits such yen loans will bring to China and Japan.

(Yasuo Onishi)

Notes:

1. The first publicly reported official comment on the Strategy for Developing the Western Region is a remark by President Jiang Zemin made at a central conference on poverty relief and development affairs held on June 9, 1999. He was quoted as saying "conditions are already in place...it is necessary to accelerate the development of the Central and Western regions by not missing out on an opportunity." But it is believed that President Jiang made a similar remark already in March 1999. See Section 1 of Chapter 2.
2. In terms of administrative jurisdiction, the scope should include two more districts for ethnic minorities: Beianshi Autonomous Prefecture of Hubei Province and Xiangxi Autonomous Prefecture of Hunan Province. But this paper ignores these two districts because statistics for them are not readily available.
3. Eastern Region: Beijing, Tianjin, Hebei, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong, Guangxi, and Hainan. Central Region: Shanxi, Inner Mongolia, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei and Hunan. Western Region: Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia, and Xinjiang.
4. For example, see *Big Debate on the Chinese Economy Volume 4*, Economic Management Press, 1999 (in Chinese).
5. For details and assessment of the reform of the financial system, see Mariko Watanabe, "Deflation and Financial Reform in China", *China's Non-Performing Loan Problem*, Institute of Developing Economies, 1999.
6. News reports on the Central Conference on Economic Works held in November 2000.
7. The "five reforms" proposed at the same time are (1) reform of the food distribution system; (2) reform of the investment and loan system; (3) housing reform; (4) fiscal reform; and (5) nation-building through education in science. *People's Daily*, March 20, 1998 (in Chinese).
8. Zhao Ziyang, "Go Forward on the Way of Socialist Economy with Chinese Characteristics" (in *Since 13th Party Congress*, People's Publishing House, 1991, in Chinese) In 1985, Hu Yaobang spoke of his own version of the "three-stage development plan," that called for the quadrupling of GNP by 2000 from the 1980 level to achieve the living standard of "fairly good" (the first stage), "the economic level of a semi-developed country" by 2021 (the centennial of the Chinese Communist Party's establishment) (the second stage), and the realization of a "modernized strong socialist nation" by 2049 (the centennial of China's founding) (the third stage). ("The Growth Way of Intellectuals in the Present Age" in *Since the 12th Party Congress*, People's Publishing House, 1986 in Chinese).
9. Joint management does not mean the full cooperative type of management like people's communes in the past but the family management-based "dual management system" under which the pre-production phase (procurement of producers' goods and financing) and the post-production phase (stockpiling, sales and transportation of farm products) are to be placed under cooperative and commercialized management.
10. "Decisions concerning Some Important Issues Related to Reform and Development of State-Owned Enterprises", *People's Daily*, September 27, 1999 (in Chinese).
11. The World Bank, *World Development Indicators*, 2000
12. An attempt to move mining and industrial operations to the Inland Region for defense considerations. The "first line" means the Coastal and border regions, while the "second line" indicates the middle region between the Coastal and Inland regions such as areas along the Beijing-Guangzhou railway.
13. Chen Yao, *Research on State Development Policy for the Central and Western Regions*, Economic Management Press, 2000 (in Chinese).
14. The same as above
15. The seven economic zones are as follows: (1) Yangtze River delta and areas along the Yangtze River (Shanghai, Jiangsu, Zhejiang and cities along the Yangtze River); (2) pan-Bo Hai district (Liaoning, Beijing, Tianjin, Hebei, Shandong, Shanxi, and the midwestern part of Inner Mongolia); (3) Southeastern coastal district (Guangdong and Fujian); (4) some provinces and districts in the southwest and southern China (Sichuan, Guizhou, Yunnan, Guangxi, Hainan, Tibet, and western Part of Guangdong); (5) Northeastern district (Liaoning, Jilin, Heilongjiang, and the eastern part of Inner Mongolia); (6) district covering five Central provinces (Henan, Hubei, Hunan, Anhui, and Jiangxi); and (7) Northwestern district (Shaanxi, Gansu, Ningxia, Qinghai, and Xinjiang). Take note of the fact that Liaoning is entered in both (2) and (5), and that Inner Mongolia and Guangdong are divided into different zones.
16. The six items are: (1) to give policy priorities to resources development and infrastructure construction projects in the Central and Western regions, as well as to the accelerated transfer of resources processing and labor-intensive industries to the regions; (2) to adjust prices of resources to help boost the Central and Western regions' own abilities of development; (3) to implement a normative system for the transfer of funds from the central government; (4) to accelerate the pace of reform in the Central and Western regions and introduce more foreign capital to the regions; (5) to strengthen support for poverty areas; and (6) to strengthen economic partnership and technical cooperation between the Coastal Region and the Central and Western regions.
17. The major projects are: (1) the Xi'an-Hefei section (955 kilometers) of the Xi'an-Nanjing railway; (2) the Chongqing-Huaihua railway (640 kilometers); (3) road construction in the Western Region (national highway trunk lines and roads through state-designated poor

- counties); (4) construction and expansion of airports and aviation network improvements in the Western Region (Xi'an, Chengdu, Kunming, Lanzhou, and Urumqi); (5) first-phase construction of the Chongqing elevated railway; (6) a natural gas pipeline from the Qaidam Basin to Xining and Lanzhou (953 kilometers); (7) irrigation centers in Zipingpu of Sichuan and Huangheshapotou of Ningxia; (8) projects to turn cultivated land in the Central and Western regions back into woodland and grassland, ecological improvements and seedling-growing projects; (9) potash fertilizers in Qinghai; and (10) infrastructure improvements for universities in the Western Region.
18. *Economic Daily*, October 20, 2000 (in Chinese).
 19. Abbreviation of *Build, Own (Operate) and Transfer*. An investment formula under which an investing country undertakes construction of a plant and its operation for a certain period of time, and turns over the plant to a recipient country after recovering funds invested by way of operational profits.
 20. *China Press*, September 4, 2000 (in Japanese).
 21. *Economic Daily*, October 20, 2000 (in Chinese).
 22. Based on hearings by the author in Beijing, the Ningxia Hui Autonomous Region and other places in October-November 2000.
 23. *Economic development in Central and western Regions calls for new ideas*, compiled by the Chinese Geo-economics Society, 1999 (in Chinese).
 24. *Economic Daily*, December 28, 2000 (in Chinese).
 25. For example, the forecast made by Chen Dongsheng, chief of the Western Development Research Center of the Chinese Academy of Social Sciences. See Chapter 3 of this report.
 26. *A Report by the Research Group on China and Country-by-Country assistance*, Japan International Cooperation Agency, 1999.