

China: Regional Disparity, Policy Adjustment and New Challenges

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Regional Disparity in China: 1980s and 1990s

- ★ East coast provinces are more developed
- ★ Central provinces are in the middle
- ★ West provinces are less developed





<http://www.map168.com/china.gif>



Per Capita GDP by Region (Yuan)

Year	1980	1990	1995	2000
East	598	2240	7247	11334
Center	391	1338	3708	5982
West	308	1156	3035	4687
(East= 100%)				
Center/East	65%	60%	51%	53%
West/ East	53%	52%	42%	41%



Relative Marginal Productivity of Factors (East as 100%)

Year	Physical Capital			Labor			Human Capital		
	East	Center	West	East	Center	West	East	Center	West
1978	100	75	45	100	92	93	100	39	54
1988	100	93	80	100	52	50	100	41	54
1998	100	98	91	100	46	38	100	35	37

What Enlarged Regional Gaps?

- ★ Geographic disadvantages in the West
- ★ Poor infrastructure in the West
- ★ Less transfer payment during the reform period
- ★ Policy preference favors the East
- ★ Lower income, lower savings, lower investment
- ★ What else?



Recent Policy Adjustment



“West Development” Strategy Since 1999

- ★ Investment in infrastructure in the west
(State bond financing, mainly for investment in central-west areas)
e.g., Qinghai-Tibet Railway project
- ★ Invest in natural resource development, e.g.
“Three Gorge” project,
“West gas to the East” project



- ★ Removing policy barriers on rural-urban labor migration
- ★ Preferential policies: e.g.,
Tax holidays and deductions for FDI
and domestic investment
- ★ Poverty relief programs



More Recently

- ★ Policy on “revitalizing old industrial base in North-East”
- ★ Further reforming SOEs to shareholding companies, etc.



What are the Effects?



Changes in Investment by Region (East=100)

	1980	1990	1997	2000
East	100%	100%	100%	100%
Center	61%	45%	37%	38%
West	48%	34%	29%	33%



Cross-Region Capital Flow (Estimated) 1991, 100 mil. yuan

	East	Center	West
Domestic capital flow	9	- 121	112
Budgetary transfer	- 173	66	107
Bank funds	- 339	239	100
Capital market	5	- 3	- 2
Other capital flow	517	- 302	- 94
Foreign Investment	216	10	9
Total capital flow	226	10	121



Cross-Region Capital Flow (Estimated) 1997, 100 mil. yuan

	East	Center	West
Domestic capital flow	- 586	- 681	1267
Budgetary transfer	- 380	10	370
Bank funds	- 734	592	142
Capital market	100	- 83	- 17
Other capital flow	428	- 1199	771
Foreign Investment	3237	396	211
Total capital flow	2652	- 285	1478



Cross-Region Capital Flow (Estimated) 2000, 100 mil. yuan

	East	Center	West
Domestic capital flow	- 1227	- 567	1794
Budgetary transfer	- 1005	220	786
Bank funds	1815	- 1323	- 491
Capital market			
Other capital flow	- 2036	536	1500
Foreign Investment	3022	305	154
Total capital flow	1795	- 262	1947

Rural Labor Cross-Region Migration 2000, mil. Persons

	East	Center	West	Total
Inflow	23. 2	2. 9	2. 1	28. 2
Outflow	2. 8	15. 8	9. 6	28. 2
%	82	10. 3	7. 7	100
%	10	56	34	100



**These helped;
however, regional
gap is still large**



West: What are still behind?

- ★ Low productivity
- ★ Low technical progress
- ★ Low achievement in reform
etc.



Market Value of Sold Patents and Technologies Yuan/person (R&D)

	1995	1998	2000
East	2212	3732	5883
Center	931	1479	1827
West	805	1139	1696
West/East(%)	36.4%	30.5%	28.8%



Marketization Index by Province (2000)

East	Rank	Central	Rank	West	Rank
Guangdong	1	Anhui	9	Chongqing	12
Zhejiang	2	Henan	16	Guangxi	13
Fujian	3	Hubei	17	Sichuan	15
Jiangsu	4	Jilin	18	Yunnan	22
Shandong	5	Hunan	19	Gansu	23
Shanghai	6	Jiangxi	20	Inner Mongo	24
Tianjin	7	Heilongjiang	21	Guizhou	25
Hainan	8	Shanxi	26	Shan'xi	27
Liaoning	10			Ningxia	28
Hebei	11			Qinghai	29
Beijing	14			Xinjiang	30

Five areas of Marketization by Region

	Government	Non-State	Product	Factor	Market Intermediary	Overall
	-Market	Sector	Market	Market	& Legal	
	Relationship	Development	Development	Development	Environment	
Average	6.05	5.34	7.44	3.6	5.26	5.78
East	7.52	7.73	8.8	5.64	6.44	7.16
Center	5.77	4.41	7.25	2.75	4.94	5.47
West	4.78	3.63	6.21	2.19	4.31	4.71
East-west gap	2.74	4.1	2.59	3.45	2.13	2.45

Urbanization Rate by Region (%)

	Urban/total population		
Year	1982	2000	Change
East	24.1	46.1	22
Center	19.9	33	13.1
West	16.6	28.7	12.1



Further Policy Considerations

- ★ Only money is not enough for the West
- ★ Promote development of the private sector
- ★ Improve business environment
- ★ Further government reform:
More efficient, less corrupt
- ★ Care of the poor
- ★ Promote urbanization
- ★ Promote education



Thanks

