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Is China's Growth Moving Inland? A Decade of 'Develop the West'

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Summary

- China's response to the global financial crisis has led to limited geographical rebalancing in China's growth towards its Western regions.
- The rapid development of China's export-oriented coastal provinces in the 1990s, and greater industrial agglomeration there, created a growing gap between China's eastern and western regions.
- The concept of the 'west' stretches beyond a strict geographical understanding of the western areas of the country, and can perhaps be best understood as comprising China's more remote or frontier areas, a perception which often gives rise to an automatic assumption that the western regions are 'backward'.
- The data shows that there has been a substantial increase in overall GDP of the western regions. A significant driver of that growth has been fixed asset investment.
- The western regions will become an increasingly important part of China's economic development.

Introduction

The impact on China of the global financial and economic crisis has brought to the fore questions about the balance as well as the pace of China's economic growth. The major impact of the crisis on export industries in a number of eastern coastal provinces has challenged the idea of the dominance of exports from these regions as a sustainable driver of China's growth. Beijing's response to the crisis, including through the nation-wide RMB4 trillion stimulus package, has created opportunities to rebalance aspects of the country's development model; this includes addressing the wealth gaps between urban and rural areas, and between the richer coastal provinces and the interior.

This paper focuses on the geography of economic development. It asks whether the drivers of China's growth are shifting inland from the coastal provinces, by looking at part of the interior, the western regions of China. It addresses this question not just against the background of the recent crisis and China's response to it, but by examining developments over the last ten years under the Chinese policy rubric of 'Develop the West'. We argue that there has been some limited geographical rebalancing in China's growth towards its western regions, as a result of a range of political and economic trends over the past decade, and that this rebalancing is being further strengthened by the response to the financial and economic crisis. We further suggest that the implications of this include the increased political and economic importance of inland regions both for China and for the global economy.

The paper first outlines the content of and background to Develop the West policies, and puts these in a wider context of the evolution of Chinese development policy. It then assesses development in the western regions against both economic and social indicators, benchmarked against national averages and development in the eastern regions,¹ and comments on the varied picture within the western regions. The paper concludes by outlining some implications of this research for China and the global economy.

Develop the West

The rapid development of China's export-oriented coastal provinces in the 1990s, and greater industrial agglomeration there, created a growing gap between China's eastern and western regions. This phenomenon was partly the result of the development model pursued under 'reform and opening up' since Deng Xiaoping solidified his grip on power in 1978, and reflected

Deng's comment that 'some people and some regions should be allowed to get rich first'. The policy focus of reform and opening up was primarily on coastal provinces such as Guangdong, and partly as a result these areas showed the most rapid growth. The regional gap has also been exacerbated by China's increased integration with the global economy, especially from the 1990s, as manufacturing and assembly for export operations in China's coastal provinces became an important feature of a wider transformation in global supply chains and business models.ⁱⁱ The regional economic differences were not novel to the reform era, however, as witnessed by Mao Zedong's reference to the need to address coastal-inland differences in his 'Ten Great Relationships' of 1956, a document which has again been circulating among some policy makers in China over recent years.

This east-west differential was behind the announcement in June 1999 of the Develop the West programme by then Party General Secretary Jiang Zemin (there were a number of reasons for the timing, including an earlier suggestion by Deng that the focus of development should move to the interior around the turn of the century).ⁱⁱⁱ

Formally inaugurated in March 2000, this omnibus programme contained a number of different policy objectives to develop the western regions, building on earlier efforts, and arguably reflecting more of a policy realignment than a sudden shift. Chief among these was infrastructure development, in line with the general fiscal broadening of the late 1990s, and following fiscal reforms in 1994, one of the results of which was to enable the centre to offer greater support to struggling regions.^{iv} There was also a strong emphasis on ecological protection, potentially at variance with the infrastructure drive. Other aspects included developing energy resources, adjusting the industrial structure, reforming state-owned enterprises,^v improving conditions for the development of a market economy, attracting foreign direct investment (especially after WTO accession in 2001), and raising the quality of human resources and utilization of science and technology. Given the number of ethnic minority groups in the western regions, a broader political and cultural element of state building and border security was also encompassed within the programme.^{vi} Many of the aims for the western regions were incorporated into the tenth five-year plan (2001-2005). Delivery of the programme was to be through a mixture of fiscal measures, including spending by the central and provincial governments and increased bank loans, as well as soft policies to improve the quality of governance and awareness of market and reform, all overseen by a large and senior State Council Leading Group on the Development of the Western Regions.

The twelve provincial-level administrative units which make up the western regions are the provinces of Shaanxi, Sichuan, Yunnan, Guizhou, Gansu and Qinghai, the municipality of Chongqing,^{vii} and the autonomous regions of Tibet, Xinjiang, Ningxia, Guangxi, and Inner Mongolia, though the exact geographical scope was also the subject of some negotiation.^{viii} These massive western regions cover diverse and varied territory, with, for example, major differences between the southwest and northwest. There are also geographical policy preferences within the western regions. Particular priority has been given to the economy in four areas: the Xi'an-Lanzhou-Xinjiang belt; the upper Yangzi river economic belt (especially Chongqing and the provincial capital of Sichuan, Chengdu); the Nanning-Guiyang-Kunming region; and ethnic minority areas, especially Tibet and Xinjiang.^{ix}

The concept of the 'west' stretches beyond a strict geographical understanding of the western areas of the country, and can perhaps be best understood as comprising China's more remote or frontier areas, a perception which often gives rise to an automatic assumption that the western regions are 'backward'. Viewed geographically, at the end of 1999 the western regions covered 73.3% of China's land area and contained 28.4% of its population, but they only accounted for 18.7% of national GDP, with GDP per capita levels at around 40% of those in the east,^x and contained 61.8% of the country's officially-designated poor counties.^{xi} Nonetheless, substantial potential for economic growth was envisaged, with the western regions containing over 80% of China's water resources, over 70% of its natural gas reserves, around 60% of the coal reserves, and a large number of rare metals.^{xii} Advocates of Develop the West also highlighted scope for increasing border trade and tourism.

The wide and diverse agenda of Develop the West not only reflected the range of development issues which needed addressing, but also the bureaucratic negotiation and consensus-building required to launch such a major policy. The developmental issues it highlighted include the extent to which western regions would need to depend on the centre for fiscal support, and whether this could be compatible with the wider goals of promoting a more efficient market economy in these regions. This exemplifies a more general question of development in China over recent decades, the relative roles of the state and the market, with Develop the West reflecting the dominance of a state role in economic development over that of the market.^{xiii} Related to this is the heavy dependence on infrastructure development, and more widely on fixed asset investment, as the major driver of growth in the western regions, raising questions of the sustainability of economic

development there. The western and coastal regions display important differences in economic structure, particularly the much lower levels of exports from and foreign direct investment into the western regions. In general terms, the industrial structure of western regions is also less developed, with primary industries occupying a higher proportion of GDP than in the east.

More widely, the programme contained ambiguities about the relationship between the development of the western regions and broader national development, in particular in eastern coastal provinces. Part of the motivation behind Develop the West was to utilize the region's hydropower, coal and mineral resources to feed the burgeoning demand of the east.^{xiv} These facets of Develop the West have raised questions in western regions as to whether the major goal was the development of the west itself, or the use of the region's resources in the pursuit of further national growth, in particular in the coastal regions.

As noted above, the Develop the West programme was launched by then Party General-Secretary Jiang Zemin. The new leadership of Hu Jintao and Wen Jiabao expressed their commitment to the programme on taking office from 2002. Since then, there has been a broader shift in China's development policy which has involved a greater emphasis on sustainable and balanced development across the country. Addressing urban-rural imbalances and environmental degradation, both of which contribute to Develop the West, have been an important part of the Hu/Wen policy platform. Separate and subsequent overarching programmes have sought to stimulate development in the northeast rustbelt and the central provinces which lie between the eastern coastal regions and the west of the country. A recent World Bank report suggested that the greatest indicators of inequality within China have increasingly been apparent within regions, rather than between them, and that rural/urban inequality was a greater challenge than regional inequality.^{xv} And as noted above, the financial crisis has raised additional questions about China's economic development model, including the role of the state, the extent of reliance on exports in coastal provinces, and the importance of domestically-driven growth. The questions of balanced growth and development have become more multi-faceted.

Against this background, it can be argued that over the last few years Develop the West has been somewhat diluted into a broader agenda of balanced growth. However, we maintain that the issues of western development remain pertinent. Although interest among Chinese commentators in Develop the West *per se* declined from around 2004,^{xvi}

interest has again increased in advance of the tenth anniversary of the formal launch of Develop the West, due in March 2010. The National Development and Reform Commission is reported to have been investigating new policy options to help western development.^{xvii} The western regions have also remained the focus of a number of specific policy initiatives over recent years, such as the central government's provision of free schooling to all children in the western regions.

To evaluate the extent of western development over the last decade, including since the 2008/2009 economic crisis raised the question of whether China's development growth is moving inland,^{xviii} we looked at a range of indicators. We focus particularly on GDP growth, with some supporting analysis of levels of fixed asset investment and foreign direct investment. But we do not consider that development can be reduced to analysis of GDP growth, and therefore complement this analysis with a brief examination of the relative performance within China of western regions against the human development index (HDI), which balances economic growth with health and education proxies.

Economic growth over the last decade^{xix}

Our findings show that, since 2000, the western regions have experienced accelerated economic growth. During the first seven years of this decade the growth rates were low compared to the rapid national GDP growth, but since 2007, and especially after the global financial and economic crisis, the economic growth rates of the western regions have overtaken those of the east.

The data shows that there has been a substantial increase in overall GDP of the western regions from US\$185.47 billion in 1999 to US\$838.70 billion in 2008, an average yearly growth rate of 11.8%, surpassing the national average over that period of 9.9%.^{xx} During the same period, the western regions' GDP per capita increased from US\$521 to US\$2303, a growth of 342%, slightly above the national average growth rate of 313%. Since 2007, the western regions' annual GDP growth rate has surpassed that of the east and the whole country. This growing momentum is especially distinct this year (2009) with the impact of the global financial and economic crisis and the Chinese stimulus package of RMB4 trillion. In the first half of 2009, the western regions' GDP grew by 11.8% compared with the same period last year, surpassing 7.1% growth for the whole country, 8.9% in the eastern regions and 9.2% for the central provinces. According to a newly-released set of data from the National Bureau of Statistics, urban fixed asset investment in

the western regions grew by 42.1%, compared with 26.7% in the eastern regions and 38.1% in the central provinces. We expect these trends to be reflected in subsequent growth in GDP per capita, though it is not yet clear whether this represents sustainable growth or a short-term fillip as a result of the stimulus package.

A significant driver of that growth has been fixed asset investment. This reached US\$532.9 billion in the western regions for 2008, compared with US\$65.5 billion in 1999. It increased from 18.7% to 21.6% of the national total over the same period, though over this period a greater increase has come from investment in China's central provinces, up from 21.5% of the national total in 1999 to 27.1% in 2008. Since the launch of Develop the West, the government has also highlighted work on 102 specific major projects with a value of RMB1740 billion, including high-profile projects such as the Qinghai-Tibet railway, and projects to transmit energy from west to east.^{xxi} The vast majority of the fixed asset investment in the western regions has been from domestic sources, mainly central, provincial and local governments, major Chinese corporations, and loans from the major Chinese banks.

Over the same period, foreign direct investment (FDI) in the western regions has also risen from US\$1.8 billion to US\$12.6 billion. Although this has nearly doubled their share of national FDI, western regions still only accounted for 8.4% of the national total in 2008.^{xxii} This partly reflects the different economic structure of the western regions, mentioned above. Whereas eastern provinces attract major inflows of FDI as part of global supply chain development, or for manufacturing or assembly for export markets, the distances of the western regions from coastal ports make such investments there much less attractive, except in particular cases. However, as foreign companies increasingly focus their investment on serving the domestic Chinese market, this pattern of FDI may begin to change.

Nevertheless, despite the rapid growth, these GDP and investment figures indicate that the absolute disparity between east and west remains substantial. The western regions accounted for 17.8% of national GDP in 2008, an increase of only 0.3% from the 1999 level, while over the same period the eastern regions' share rose from 56.6% to 58.3% of national GDP. During this decade, the GDP per capita of all the western provinces except Inner Mongolia have remained well below the country's average;^{xxiii} the western regions' average GDP per capita accounts only for 43.5% of that of the east, though this is an improvement on the ratio of 39.8% in 1999.

There is also substantial disparity in growth between and within the western provinces.^{xxiv} Among the twelve western provincial units, Inner Mongolia witnessed the fastest growth from 2000 to 2008, with an average yearly growth rate of 16.7%, and its growth rate ranked first in the country for seven consecutive years since 2002.^{xxv} In contrast, Guizhou, Yunnan, Gansu and Xinjiang are the slowest among the western group, with rates of 10.6%, 9.7%, 10.7% and 10.3% respectively. The other provinces fall between 11% and 12%, while the Tibetan Autonomous Region and Shaanxi province saw growth slightly above 12%. Similar disparities can also be seen in the GDP per capita figures. Inner Mongolia recorded US\$4705 in 2008, double the average GDP per capita for western provinces, while the poorest provinces (Guizhou, Yunnan and Gansu) recorded figures under US\$2000.

In terms of the growth in fixed asset investment, Inner Mongolia also comes out on top, with its FAI increasing more than seventeen-fold since 1999, while Chongqing Municipality and Shaanxi's fixed asset investment grew more than seven times each. Gansu, Qinghai and Xinjiang recorded the slowest growth in fixed asset investment, an increase of less than four times over the same period. For growth in FDI, Qinghai, Inner Mongolia and Chongqing ranked highest, with increases from US\$4.6mn, 64.6mn and 238.9mn to 220mn, 2651mn and 2729mn respectively. Guangxi, Tibet and Ningxia witnessed the lowest growth in FDI.

Human Development Index^{xxvi}

As noted above, we have sought to put these economic indicators into a broader development perspective by looking at HDI data. HDI consists of three dimensions, life expectancy, level of education (measured by a combination of literacy rates and school enrollment ratios), and level of economic development (measured by GDP per capita), and therefore gives a broader indication of standards of development than overall GDP growth figures.^{xxvii}

Over the last decade, all the western provinces saw growth in HDI, with an average increase of 12%. Ranking all of China's provinces according to their HDI scores shows that Xinjiang and Inner Mongolia experienced the most substantial change in rankings between 1999 and 2006: Xinjiang dropped from 15th place to 22nd, while Inner Mongolia rose from 22nd to 14th. However, despite the growth in HDI across the board, all the western provinces' HDI scores have remained below 0.80, and the region overall remains at a lower level of human development than the eastern and central regions. Moreover,

western provinces accounted for ten of the lowest twelve Chinese provinces in both 1999 and 2006.

Neither do the western regions perform particularly well when examining the health and education sub-indices which go to make up HDI. Overall it is the substantial increase in the index of GDP per capita which has accounted for the growth in HDI in western regions. The growth in life expectancy since Develop the West was launched has been far less dramatic, and there has been a decrease in the education index for each western province (except for Tibet and Qinghai), in spite of the central government's calls for education in western provinces to be improved. Separate research confirms the persistence of structural inequality in educational opportunities in inland provinces.^{xxviii}

Conclusions and implications

Firstly, we conclude that China's economic growth has been gradually and slowly spreading further inland over the last decade, with the statistics available to date suggesting that the pace of this shift has increased since 2007, as rapid economic growth rates in western regions have surpassed those of the east. Given the continued weakness in global demand and the state-wards shift in the focus of development (partly in response to the financial and economic crisis), we expect this trend to continue in the short to medium term as stimulus policies encourage more balanced regional development. Measures to expand the rural economy and promote domestic consumption may also contribute marginally to a shift in growth away from the coast. And conversely, further development of the western regions could help boost overall domestic demand in the economy.

The western regions will therefore become an increasingly important part of China's economic development. But while the western regions have been the focus of this paper, the spread inland of economic growth is not confined to the western regions; indeed, our research raises the question of whether it is more prominent in central provinces than further west. It should also be noted that, although separate policy frameworks exist to develop the western and central regions, these are broad in nature, and the practice of political economy is managed in China on a provincial or sectoral basis, as well as being affected by market developments, industrial agglomeration, or internal barriers to trade (which exist between provinces more than regions). Aggregation on a provincial level is also problematic, as it disguises the potentially large discrepancies in development within provincial units. Any

simplification to east-central-west, or to particular provinces, risks masking complex diversity within the development picture.

Secondly, although the GDP figures are beginning to show signs of greater promise for development of the western regions, not only is there a substantial gap with the coast still to be bridged, but the HDI data show less of a relative improvement in the wider living environment in western regions. If growth without wider development were to continue, this could exacerbate some of the social tensions which Develop the West was intended to address. These include, but are not limited to, ethnic and security issues which have come to attention again since 2008 in Tibet and Xinjiang, and which have been commented on extensively elsewhere. Other governance issues, such as corruption, are at least as serious in the western regions as elsewhere in China. Infrastructure in the western regions still remains weaker, environmental problems are commonplace, and the soft infrastructure less developed. Taken with the uncertainty over the sustainability of the current phase of growth, these factors highlight the considerable challenges which still remain in developing China's west.

Thirdly, however, the current pace of growth in the western regions and the space for it to continue (given the west's abundant resources and the potential for much greater FDI than in the increasingly saturated eastern regions), reveal promise not just for the western regions, but suggest that the overall potential for economic growth in China remains substantial, even if growth in major coastal provinces and cities were to continue to falter. Contrary to some speculation that average growth rates in China are bound to fall,^{xxix} it is possible – though by no means certain – that rebalanced regional growth within China could lead to a continuation on a national level of the economic miracle of the last couple of decades.

If this does prove to be the case, however, the different economic structure of the western and central provinces' economies will mean a change not only in the nature of the national economy, but also in its interaction with the rest of the world, including the developed economies of north America, western Europe and Japan which have been central to the export-driven growth of recent decades. The international engagement of China's western regions – which is a topic for another paper – is of a different character from that of the country's coastal provinces. Rather than being integrated into global supply chains, the western regions are likely to witness international linkages such as greater trade with central Asia, the consequences of the gas and oil pipelines being built to bring energy overland into China to places such as Yunnan or Xinjiang, China's efforts to build land links to the Indian Ocean, or

the impact of China's increasing economic engagement with other developing countries in south or southeast Asia.

In sum, there has been a gradual improvement in the development prospects of China's western regions, resulting from both the accumulative effect of policies since Develop the West was launched, and the boost given by the stimulus response to the global financial and economic crisis. Although the disparity among and within regions remains notable, and substantial challenges remain in developing the most backward regions of China, the policy support emerging from the current crisis has been acting as a stimulus to further economic growth in the western regions. This creates the possibility of hastening the geographical rebalancing of China's development, and increasing the importance of western China to the global economy during a period of intensified globalization.

ⁱ Comparing the western regions with the eastern regions and not just national averages helps to deal with some of the statistical issues. Given that the published GDP growth figures of most provinces are higher than the national average, simple comparisons between the western regions and national averages are arguably of limited value. By comparing with the eastern regions (based also on provincial statistics), we go some way to address the concern over differences in reliability between national and provincial statistics.

ⁱⁱ Inland provinces such as Yunnan and Xinjiang also enjoyed preferential 'opening up' policies from 1992, but their distance from coastal ports and global shipping routes contributed to the fact that they did not develop as the coastal regions did.

ⁱⁱⁱ For further background and analysis in English see Hieke Holbig, 'The Emergence of the Campaign to Open Up the West: Ideological Formation, Central Decision-making and the Role of the Provinces', *The China Quarterly*, 2004; David S G Goodman, 'The Campaign to 'Open Up the West': National, Provincial-level and Local Perspectives', *The China Quarterly*, 2004; Christopher A MacNally, 'Sichuan: Driving Capitalist Development Westward', *The China Quarterly*, 2004; Susan M Walcott, 'The Dragon's Tail: Utilizing Chengdu and Chongqing Technology Development Zones to Anchor West China Economic Advancement', *Journal of Chinese Economic and Business Studies*, July 2007; Lijian Hong, 'Chongqing: Opportunities and Risks', *The China Quarterly*, 2004; Barry Naughton, 'The Western Development Programme', in Naughton and Dali Yang (eds), *Holding China Together*, Cambridge University Press, 2004.

^{iv} See Justin Yifu Lin and Peilin Liu, 'Development Strategies and Regional Income Disparities in China', in *Inequality and Growth in Modern China*, Guanghua Wan (ed), Oxford University Press, 2008.

^v Industry in the western regions was, and remains, less efficient, though it should also be noted that it had been considered strategically important in earlier years, as witnessed by the Third Front programme from around 1964 to 1971, which brought major industrial and defence-related construction to some western provinces.

^{vi} Han populations are a majority in almost all provinces (except the Tibet and Xinjiang Autonomous Regions). China's ethnic minorities are not confined to the western regions, though they are more prevalent there.

^{vii} Chongqing had been part of Sichuan province until 1997.

^{viii} China's 'west' had been generally understood as including ten provincial-level administrative units, but Inner Mongolia, situated in China's north, was also included in Develop the West due to the programme's ecological agenda, and the emphasis on minorities facilitated the inclusion of Guangxi Autonomous Region in the southwest.

^{ix} Yue-man Yeung and Xiaojin Li, 'China's Western Development: The Role of the State in Historical and Regional Perspective', Shanghai-Hong Kong Development Institute Occasional Paper No.10, April 2004.

^x National Bureau of Statistics, *China Statistical Yearbook 2000*, Beijing: China Statistics Press, 2001.

^{xi} Figures taken from the 1994 'Seven-year priority poverty alleviation programme', in which 366 of the 592 counties categorized as 'poor' are located in the western regions.

^{xii} National Bureau of Statistics, *Chinese Western Statistical Yearbook 2001*, Beijing: China Statistics Press, 2002.

^{xiii} For further discussion of this issue and a historical overview, see Yeung and Li, *ibid*.

^{xiv} For example, it followed a separate programme to transfer energy from the west to the east (*xidian dongsong*), plans for which date back to the 1980s, with the first seasonal deliveries of power taking place in 1993 (Darrin Magee, 'Powershed Politics: Yunnan Hydropower Under Great Western Development', *The China Quarterly*, 2006, 185:23-41).

^{xv} World Bank, 'From Poor Areas to Poor People', 2009 (downloaded from www.worldbank.org July 2009).

^{xvi} This is based on a brief review of articles on Develop the West from 2000 to the present.

^{xvii} Editorial, *Hong Kong Economic Journal*, 14 July 2009.

^{xviii} See, for example, Anthony Chan, 'China's Economic Model May Be Vindicated as Growth Moves Inland', 19 June 2009, *Asian Weekly Economic Insights*, Alliance Bernstein Fixed Income.

^{xix} In this section, unless otherwise indicated, data have been collected and calculated from the Chinese Statistical Yearbook and Statistical Abstract, while the 2008 data have been collected from national and regional Statistical Bulletins, and the 2009 data from the websites of the statistical bureaux.

^{xx} However, as noted above, this comparison may not be totally reliable, due to differences between national and provincial data.

^{xxi} Data up to the end of 2008 from the website of the National Development and Reform Commission: http://www.ndrc.cn/xwfb/t20080620_219093.htm (accessed July 2009). Note that due to variations in exchange rate over the period in question, we have given the total investment in RMB and not converted it to US\$.

^{xxii} There are substantial discrepancies between the national statistics and the sum of provincial statistics for FDI in 2008. At the time of writing, the China Statistical Yearbook for 2008 had not been released, so we have collected provincial and national data from the relevant statistical bulletins for 2008. Subsequent adjustments by the Bureau of Statistics may reduce the discrepancies.

^{xxiii} Chongqing Municipality expects its GDP per capita to be greater than the national average in 2010, www.cqnews.net, 24 July 2009.

^{xxiv} We have not looked at disparities within provinces for this paper.

^{xxv} Inner Mongolia is an outlier in western regions, and were it removed from the analysis, the overall picture of western development would be marginally worse.

^{xxvi} The United Nations Development Programme, *China Human Development Report 2002*, Beijing: China Financial and Economic Publishing House, 2002, and *China Human Development Report 2008*, Beijing: China Translation and Publishing Corporation, 2008.

^{xxvii} Given that HDI data is only available up to 2006, we are not able to draw direct comparisons with the economic data; nonetheless, we contend that the HDI picture reveals some useful points about wider issues of development in the western regions.

^{xxviii} Min-dong Paul Lee, 'Widening Gap of Educational Opportunity? A Study of the Changing Patterns of Educational Attainment in China', in Guanghua Wan (ed), *ibid*.

^{xxix} For example Michael Pettis, 'Brace for a decade of lower Chinese growth', *Financial Times*, 29 July 2009.