

China's Western Development

The Role of the State in
Historical and Regional Perspective

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The Role of the State in Historical and Regional Perspective

Introduction

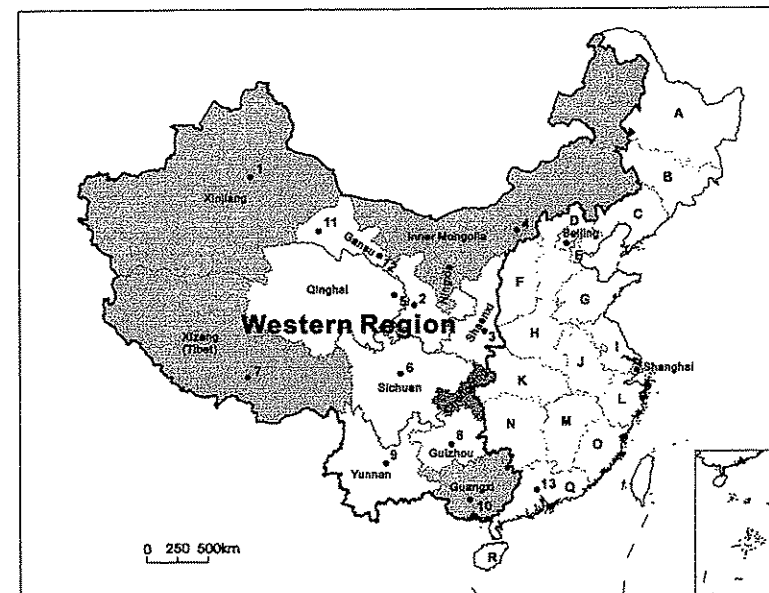
Regional development in post-reform China has drawn much attention from policy-makers and academics (Fan 1995, 1997; Wei 1996, 1999, 2000; Lu and Sit 1997; Yang 1997; Lin 1999; Wang and Hu 1999; Zhao and Zhang 1999; Zhao and Tong 2000), due, *inter alia*, to radical changes in public policies, underlying ideological shifts, widening gaps in regional economies, and the consequent appeals for assistance from the authorities of less developed regions. There appears to be a consensus among scholars that regional inequality has substantially increased in the 1990s (Lu and Sit 1997; Wang and Hu 1999; Ying 1999). With regard to the mechanisms underlying the changes, many have stressed the importance of political factors, with state intervention playing a key role (Fan 1995, 1997; Yang 1997; Lin 1999; Wang and Hu 1999; Wei 2002). However, others have maintained that globalization as an outside force has accelerated economic growth in some coastal provinces (Yeung and Hu 1992; Yeung and Sung 1996; Li and Yeung 1998, 1999; Yeung and Chu 1998, 2000; Yeung and Li 1999, 2000; Yeung 2000; Yao and Zhang 2001). Since the forces of globalization can hardly be controlled, some scholars have argued that it was state policy that promoted the speedy growth of the coastal provinces, and which, in turn, widened economic disparities between regions (Wang and Hu 1999). Criticisms of the existing regional policies have led to proposals that the government adopt strategies designed to level the playing field between regions, or even policies favouring the economically backward remote provinces.

In an effort to bridge the growing regional gap, the central government promulgated the Great Western Development Strategy in 1999 to attract and allocate financial and other resources to this less developed region (State Council 2000). The proclamation of this policy indicates that the Chinese authorities are being faithful to their long-stated strategic goal of developing the west after the coastal region has achieved obvious success (Chen, Yeung and Lin 2001:2-3). Officially defined, China's vast western region encompasses six provinces, five autonomous regions and one municipality, which, in 2000, made up 70.4% of the country's land area and contained 28.8% of its population (Figure 1) (State Statistical Bureau 2001).¹ This next stage in China's regional policy is of vital and long-term significance as it signals that the government's priorities have now shifted from efficiency-oriented coastal development to more balanced inland development.

Generally speaking, for less developed regions, preferential treatment by the government has been critical in achieving rapid economic growth (Myrdal 1957; Hirschman 1958). This has been the experience in countries such as the United States, the former USSR, Brazil and Australia (Craf 1952; Feng 2000). One common strategy successfully pursued by the governments of these countries was to provide a variety of incentives to facilitate the flow of product factors into target regions. Compared to the target regions in these countries, the western region in China is not undeveloped by certain standards. It has a history of at least two thousand years of state-sponsored development, and has even enjoyed periods of prosperity. Particularly germane to the present study are several background notes, as follows.

First, the character of current development has, in part, been shaped by this long history of state intervention in the local economy. Any positive impact notwithstanding, the lack of local initiatives has acted as a constraint on growth. Second, in the transition from a planned to a market economy, China is undergoing many institutional changes. The government's ability to directly intervene in the economy is declining. Third, the understanding of development is broader than that held a

Figure 1 The Western Region and Relevant Provinces in China



- Cities: 1. Urumqi, 2. Lanzhou, 3. Xi'an, 4. Hohhot, 5. Xining, 6. Chengdu, 7. Lhasa, 8. Guiyang, 9. Kunming, 10. Nanning, 11. Dunhuang, 12. Zhangyi, 13. Guangzhou.
- Provinces: A. Heilongjiang, B. Jilin, C. Liaoning, D. Hebei, E. Tianjin, F. Shanxi, G. Shandong, H. Henan, I. Jiangsu, J. Anhui, K. Hubei, L. Zhejiang, M. Jiangxi, N. Hunan, O. Fujian, Q. Guangdong, R. Hainan.

Note: Within the western region, the area shown in light grey shading indicates an autonomous region; dark grey shading indicates a provincial level municipality.

few decades ago. Development has now gone beyond immediate economic concerns to include improving environmental sustainability in the utilization of resources. Finally, through a long period of continuous settlement, nearly all of the arable land in China's western region is already being cultivated. Some people have been pushed to live in ecologically vulnerable environments, cultivating marginal land. A central

theme of this paper, then, is what role the government should play in a long yet still less developed area in general, and in a transition economy in particular.

This paper is divided into five parts. First, the existing literature on regional development in China is reviewed, with particular attention given to the state's role in bringing about regional changes. In the second part, a historical survey of China's western development, with a focus on the state's critical role in the development process, is provided. Part three discusses the Chinese state's intervention in regional development since 1949. Changes in the government's role in effecting economic change and the reasons behind the slower growth in western China will be examined. Part four focuses on the background and aims of the recently released western development strategy. Part five draws conclusions from the study and highlights critical policy issues that will arise as the strategy of western development unfolds.

The State's Role in Regional Development

Many factors are known to play a role in regional economic development. In terms of the determinants of regional economic inequality, numerous scholars have stressed the political factor, or state policy. This discourse can be traced to the views of neoclassical economists such as Myrdal (1957) and Hirschman (1958), who believed that state policy could have a strong impact on regional disparities. Myrdal (1957:79-81) argued that underdeveloped countries could utilize national economic development policies to redistribute national resources, thus promoting regional equality. Owing to the particularity of the political economy in China, the role of the state in regional economic development has almost always been highlighted in scholarly literature since the mid-1990s. For instance, after reviewing uneven regional development in the 1980s, Fan (1995:443) stressed that state policy change was the primary driving force behind the emerging pattern of uneven regional

development. She even claimed that the state, rather than the firm, was the prime mover in regional development in China (p. 444). Wang and Hu (1999:35) further asserted that no natural tendencies existed in regional development in China, and that the growing regional inequalities that have emerged during the reform period have, to a large extent, been the result of deliberate state policy. They believe that there are institutional and policy choices conducive both to greater economic equality and to improved economic performance (p. 205). The policy choice was to develop the coastal region rapidly in the initial stages emphasizing economic performance. Then, in 1999, attention was turned to the western region to deal with regional inequality.

From a slightly different perspective, Yang (1997:13) viewed the balance between national economic interests and political demands from the less developed interior regions as the considerations behind the formulation of the central government's regional policy. The strong demand from the interior region to achieve parity with the coastal region in economic growth steered the central government to new policy directions. Lin (1999) argued that it was state disarticulation as a result of the ongoing economic and institutional reforms, rather than increased state intervention, that promoted the expansion of production space in South China. This led to new patterns of spatial changes between North and South China, between large cities and small towns, and between cities and the countryside. Similarly, Wei (2002) has maintained that decentralization has given the regions more incentives to expand their economic activities.

A heated debate rages on the timing and direction of state intervention. Some scholars and government officials view the growing regional disparities as a natural part of achieving a period of fast growth. According to the "ladder-step" theory that has guided post-Mao regional policies (Fan 1995), development priority should first be accorded to the coastal regions, followed a certain period later by a shift towards the interior and western regions. Thus, regional problems could not

be solved before the coastal region had become more developed (Hou and Hu 1995). On the contrary, others maintained that balanced development should be the general guideline for regional policy (Wang and Hu 1999:16). In the 1990s, they repeatedly called for a new direction in state intervention — the cessation of preferential treatment for the coastal region and initiation of the same preferential policies for the interior region. Despite their differences, both perspectives have contributed to the birth of China's Great Western Development Strategy.

The crux of the problem is how effective state intervention is in promoting economic development in less developed regions. As mentioned earlier, whether successful outcomes can be achieved or not depends on the state's capacity to affect the mobility of product factors and the methods it chooses to do so. In present-day China, however, many factors have diminished the power of the central government to intervene in the economy. For example, the transition from a centrally planned to a market economy, as well as the move to decentralize decision-making, has weakened the central state's economic clout. The central government no longer possesses almost absolute power to channel resources into targeted regions, as it did during the Mao period of rigorous central planning. Moreover, non-state-owned sectors have expanded rapidly during the past two decades, and have dominated the national economy since the 1990s. Obviously, it is much harder for the government to control these sectors than the state-owned enterprises (SOEs). Given the weakening capacity of state intervention, the methods or tactics used to enhance effectiveness become the major concern. This provides a particular background for the development of the western China of today.

Historical Legacy of China's Western Development

The development in China's western region can be traced back several thousand years. Part of this sprawling region was the domain where China's ancient civilization originated. As the

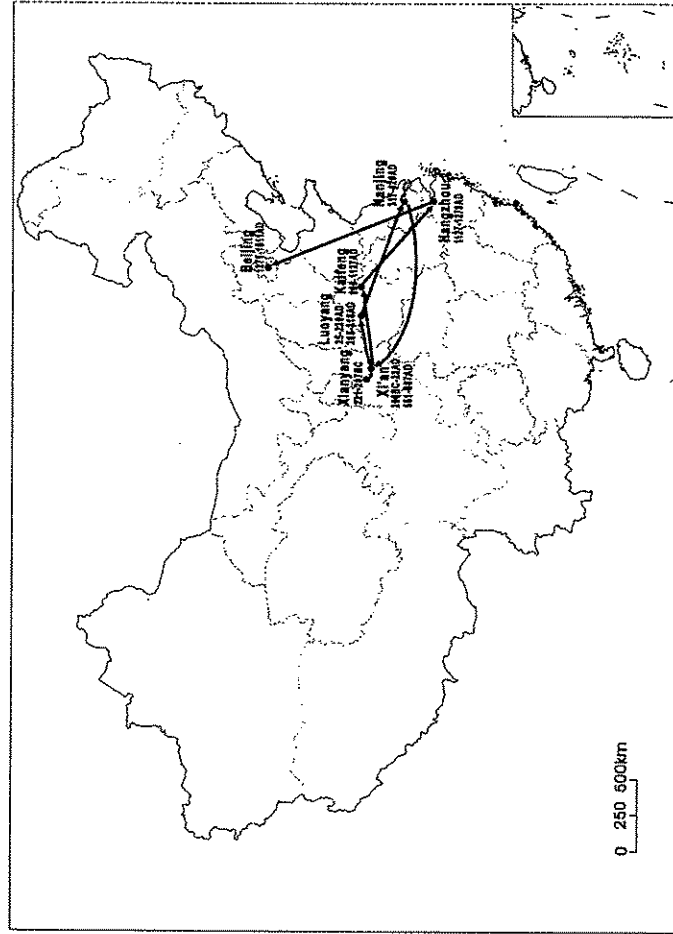
nation's political and economic centre, the area enjoyed prosperity for a long period. The political geography and spatial configuration of economic activities constitute the context in which the processes of change and development in western China are studied.

Historical Changes in Political and Economic Centres

Starting from the first dynasty, Xia (2100-1600 BC) through Shang (1600-1100 BC) to Zhou (1100-221 BC), the ancient capitals of these states were, for most of this period, founded in the Yellow River Basin (Wu 1994). After victory in the wars with other rival states, the Qin dynasty selected Xianyang as the capital for the first unified state in China (221-207 BC). Following this, the national political centre gradually moved from west to east along the Xi'an-Luoyang-Kaifeng axis, with some exceptions occurring during the Eastern Jin period (AD 317-420) when the capital was set up in Nanjing, and in the Sui and Tang dynasties (AD 581-907) when the capital was relocated to Xi'an (Figure 2). After a short interregnum during which Hangzhou was made the capital, Beijing became the national political centre for several dynasties, until the end of the imperial period. The trend is clear: over time, China's political centres shifted from the inland area towards the eastern coastal region.

It is difficult to trace the historical changes of economic centres in China because the historical data on regional economies are incomplete. However, population records and relevant estimations provide useful bases for inference. As agriculture was the dominant economic activity and any restrictions on population mobility were probably relatively insignificant over the long term, regional population density may be taken as a surrogate of economic importance in ancient China. Thus, according to Hu and Zhang (1984), the population centres from the Xia to Han dynasties (2100 BC-AD 220) were all found in the middle and lower reaches of the Yellow River. In AD 2, the population of these regions was estimated to comprise

Figure 2 Locations of the Capitals of Imperial China, 221 BC - AD 1911



Source: Wu (1994).

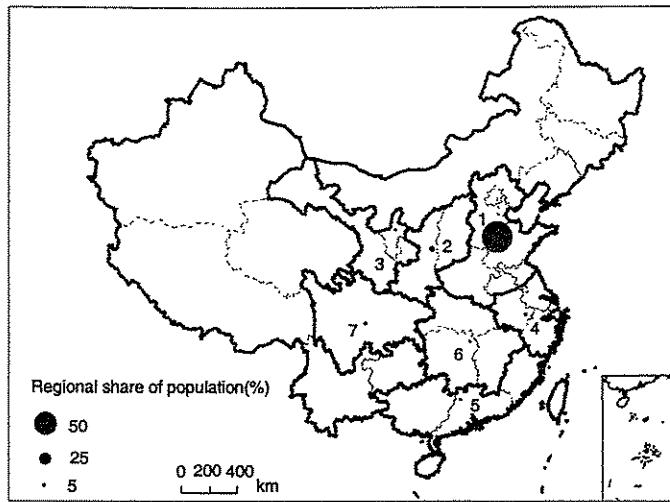
over 80% of the national total (Figure 3, a, regions 1-3). At the end of the Western Han dynasty (206 BC-AD 25), the turmoil caused by civil wars adversely affected economic activities in northern China, which in turn triggered large-scale migrations to the then relatively undeveloped southern part of the empire. The population of the north declined to less than 60% in AD 140 (Figure 3, b). Another downturn occurred in the mid-Tang dynasty. The so-called "An-Shi Rebellion" almost destroyed the economy in the previously well-developed northern regions. Again, the population of these regions declined to below 40% of the national total in AD 1102 (Figure 3, c, d). By contrast, South China witnessed rapid development. The population of these regions grew rapidly, with 22.7% and 20.4% of the nation's total population having migrated to the southeast region (Figure 3, region 4) and the central-south region (Figure 3, region 6), respectively. This short review demonstrates a historical trend in China of change in economic centres from the west to the east and from the north to the south. Over a period of approximately two thousand years, the middle and lower reaches of the Yangzi River gradually replaced the Yellow River Basin as the most important economic region in China.

Four Waves in the Development of the Western Region in China's History

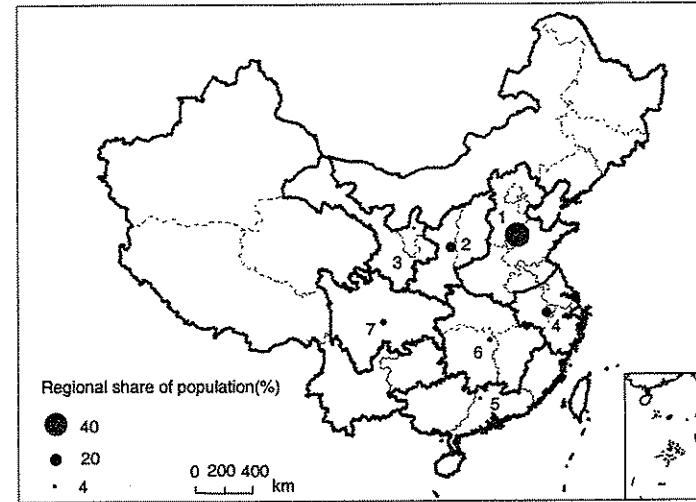
In the long history of China, four waves of development involving its western region can be distinguished. The first wave occurred in the Western Han dynasty. There were three causes behind this earliest development of China's west. First, territorial expansion was achieved when, by war and other auxiliary means, the Chinese state conquered many tribal groups in the northwest and southwest. Second, by establishing a county system, the central government consolidated its administrative control over a vast territory. Third, by allocating free land to farmers, the central government encouraged migration to this region, followed by agricultural development.² According to historical records, land reclamation by servicemen

Figure 3 Population Distribution in China, AD 2-1820

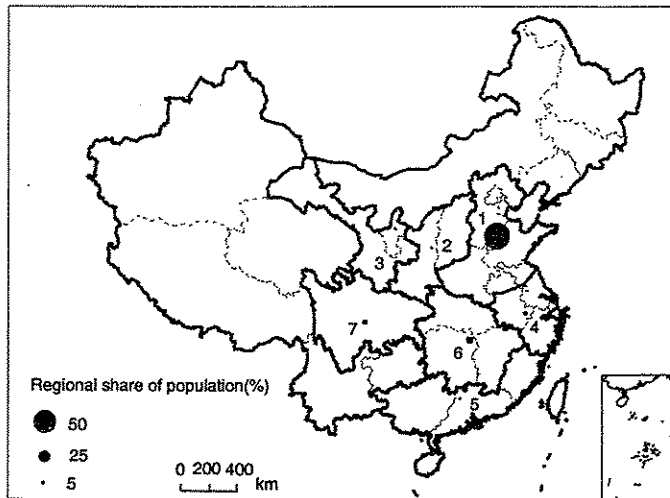
Figure 3 Population Distribution in China, AD 2-1820 (continued)



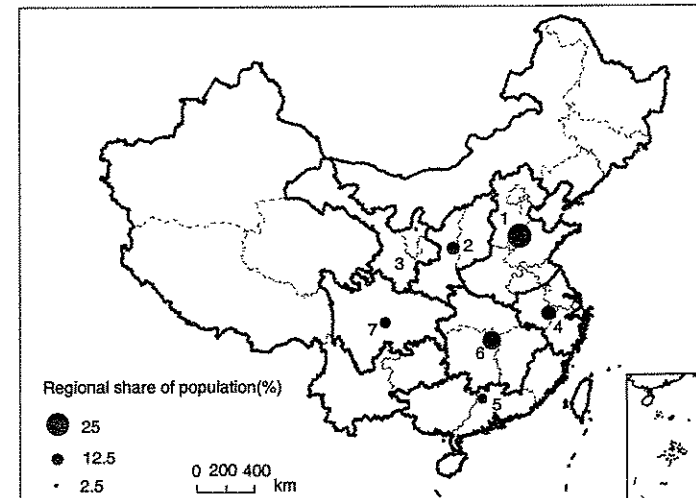
(a) AD 2



(c) AD 742

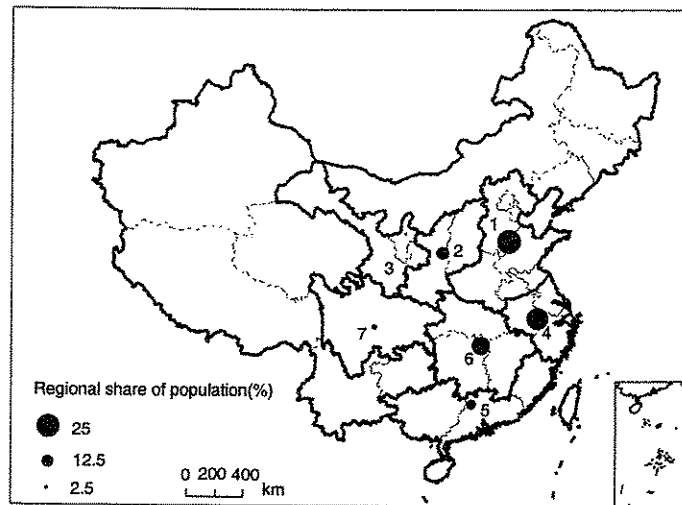


(b) AD 140

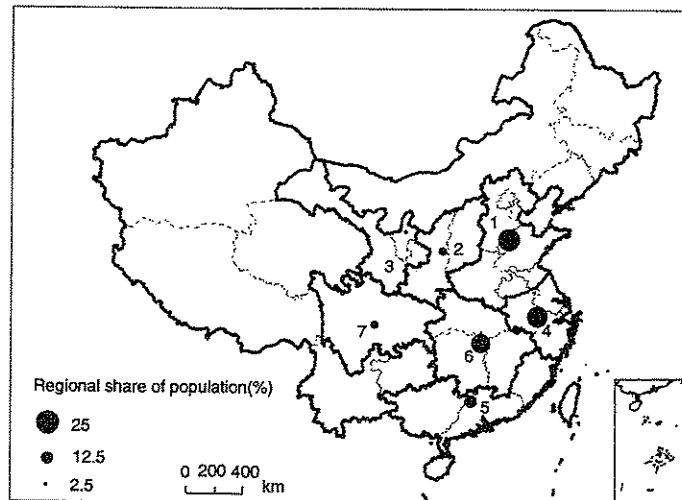


(d) AD 1102

Figure 3 Population Distribution in China, AD 2-1820 (continued)



(e) AD 1491



(f) AD 1820

Notes: 1. The lower reaches of the Yellow River; 2. Shanxi and Shaanxi; 3. Gansu and Ningxia; 4. the area south of the Huai River; 5. Guangdong, Guangxi and Fujian; 6. Hunan, Hubei and Jiangxi; 7. Sichuan.

Source: Hu and Zhang (1984).

and migrants in the northwest (the present-day Xinjiang Autonomous Region) totalled over 500,000 *mu* (1 acre = 6.6 *mu*) in the 100 years of northwest development in the Western Han dynasty (Wu and Guo 1993).

The second wave of western development in China's history emerged in the Sui (AD 581-618) and Tang dynasties. This period was one of the "Golden Ages" in Chinese history, in which western development reached a new level of success. Akin to the first wave, western development in this period was geographically only part of regional development that fanned outwards in all directions from the economic and political ecumene — the Guanzhong Plain (in the middle of present Shaanxi province). However, the scope of development in the second period was much broader. It included, first, the construction of transportation and other infrastructure. Domestically, several roads were constructed from the Guanzhong Plain to the northwest, west, southwest, east, northeast and southeast. Internationally, through the fabled Silk Road, Xi'an, the then capital of China, was linked to many central, southern and western Asian countries. Second, the period witnessed widespread construction of land irrigation systems. Although few relevant records were left of the Tang dynasty, it was found that over 100 main channels were constructed in the Dunhuang area alone in this period (Wu and Guo 1993). Third, the period was one of openness to foreign countries and of a thriving commodity trade. One emperor in the Sui dynasty chaired an international exposition in Zhangyi (in present-day Gansu province) in AD 605. Guests from 27 nations (or tribes) attended this exposition. This promoted commercial growth, attracting many merchants to come to the western region via the Silk Road.³ In the following Tang dynasty, the Silk Road was more frequently used. Handicraft and commercial industries prospered. Finally, institution-building received official attention and support. Regulations on the appointment of government officials, the inspection of granaries, equalized land allocation and irrigation management were put in place. The government also favoured the settlement of people

from other areas and promoted agricultural development. In addition, western development in this period set a precedent that the army could be fed by itself through land cultivation in the western region (Yang and Yao 2000).

The Yuan dynasty (AD 1271-1368) started the third wave of western development in Chinese history. Two development strategies adopted in this period need to be mentioned. First, western development was extended to many aspects of the regional economy. In agriculture, large-scale reclamation of wasteland by the army and farmers was carried out, and 1.5 million *mu* of reclaimed land was recorded. In the handicraft industry, the guild organization was established to promote the growth of the smelting industry as well as of the weaving and dyeing industries. In transportation, over 60 post stations were established, thereby ensuring the speedy transmission of orders from the central government and of news on the military situation in the western region (Li and Wang 1989:147). In financial aspects, the currency used by the central government in China and in the provinces it controlled was made the legal currency of the western region to facilitate the development of commerce. In addition, the central government introduced a light tax policy to lighten the burden of farmers in the western region. The second strategy adopted by the central government was to put minority groups in important positions, a policy particularly emphasized in the western region. A large number of statesmen, strategists, scientists and artists of Uygur ethnicity emerged. The economy in the northwestern part of the western region, which had suffered due to warfare, recovered and remained prosperous throughout the Yuan dynasty (Li 1997).

The fourth wave of China's western development occurred in the Qing dynasty (AD 1644-1911). The emperors of the early and mid-Qing period, Kangxi, Yongzheng and Qianlong, represented another flourishing age in Chinese history. Their policies on the western development had two main elements. First, various agricultural policies were introduced to accompany large-scale immigration and army cultivation of the land. The regulations on land reallocation limited the size of the

land occupied by the Manchurian nobility and army generals, and provided land to those who returned from the army and who had lost their non-agricultural jobs. A tax-free period was granted on newly cultivated land. Policies on land irrigation listed the relevant responsibilities of government officials at various levels (Yang and Yao 2000). The second element was the promotion of trade between farmers and herdsman. There were very large "tea and horse mixed markets" held in Shaanxi and Gansu every year. It was estimated that sales of tea in Gansu accounted for approximately 95% of the national total in the early Qing period (Yang and Wei 1991:90). Through this trade, agriculture and animal husbandry in some parts of the western region flourished.

The Legacy of Western Development in Imperial China

A very long period of development in China's west under the aegis of the central government has left a series of legacies. Three can be mentioned here. First, western development in China during the two thousand years under review was accompanied by its decline, economically as well as politically. Both economic and political centres were moving away from the western region. This shift was related in part to environmental changes; the environment in the then sparsely populated southern and eastern China was found to be more suitable for agriculture and human settlement. In addition, marine transport was becoming a new and important international link, thus strengthening the advantage of the coastal area. Nevertheless, one may ask why sustained government support through such a long period did not stop the economic downturn of the western region? Were the development strategies of the various governments poorly conceived and ineffectively executed?

Second, throughout China's imperial period, western development was focused mainly on agriculture and irrigation works. Along with these developments, settlement was gradually spreading from river basins to lands such as the Loess Plateau and lower mountainous areas. Some of the areas were,

at best, ecologically marginal for human settlement. Even the Silk Road was partly buried by deserts. This tragic ecological legacy, together with the present requirement of sustainable development, poses critical challenges for the current campaign for the development of the western region.

Third, from the very beginning, western development was strongly characterized by state intervention. A common practice of Chinese emperors was to compel the military and civilian settlement and reclamation of land in the western region, accompanied by preferential tax and other policies. By contrast, development in the southern and eastern regions was driven more by local forces. The push (turmoil in their home area) and pull (favourable environment) factors drove people to migrate into these regions from the Yellow River Basin. Thus, while economic development in the western region has relied largely on state policy and support, the eastern and southern regions are accustomed to less state intervention.

State Intervention, 1949-1990s

Researchers have repeatedly reviewed the dramatic changes in China's regional policies since 1949 (Fan 1995; Lu and Sit 1997; Yang 1997; Lin 1999; Wang and Hu 1999; Wei 2000). From various perspectives, they have stressed the role of state intervention in regional development. For the sake of simplicity, we will provide a brief accounting of central government intervention in regional development, emphasizing the effectiveness of government intervention, and the interaction between the central and regional governments.

The strategies and philosophies pursued by China's central government for guiding regional development can be clearly divided into two periods since 1949. The first period, lasting from 1949 to 1978, was the Maoist era. On the one hand, dominated by concerns of national defence and the communist ideology, the Maoist regime regarded the eastern coast as unfavourable for investment and development. Chinese leaders were worried that its maritime borders would be vulnerable to

military attacks from overseas (Yeung and Hu 1992:4). Also, the area had business and trade traditions that ran counter to communist doctrines and were viewed as dangerous "seeds of capitalism" (Lin 1999). On the other hand, the economic dominance of the eastern coastal cities (in which were found around 70% of the nation's industrial assets and output) was an affront to Mao's egalitarian sensibilities. Consequently, the central government pursued strategies favourable to interior development. The focus of capital construction investment in SOEs was shifted to the inland provinces (Table 1). Two large investment programmes highlighted this trend. The first one was the 156 Soviet aided projects (156 Projects), the country's dominant investment package in the First Five-year Plan of 1953-1957. Most of them were located in urban areas. Approximately half of them were located in northeastern provinces — Liaoning, Heilongjiang and Jilin — and the other half went to provinces in the interior, including Henan, Shanxi, Gansu and Shaanxi.⁴ Second, under the Third Front construction programme in 1965-1975, a large proportion of investment funds flowed to the mountainous areas of central China (Table 1, last column).⁵ The locations of the projects were characterized as being in "mountains," "diffusion" and "tunnels."

Assessing the performance of regional policies is a complicated task. Different criteria, whether economic or social, can lead to different conclusions. Even when using the same criterion, many interwoven factors in this period of China's history have to be taken into account. As a typical example, the economic interference of the Cultural Revolution was enormous. However, it is difficult to properly estimate the negative impact when comparing the regional economic efficiency of state investments in different periods. China was strictly a centrally planned economy. The state-invested companies (projects) operated entirely under the principles of central planning.⁶ Therefore, any investment should, efficiently or not, generate national income. Instead of involving ourselves in this unsolvable puzzle, we will focus on the regional impact of state intervention.

Table 1 Regional Distribution of Capital Construction Investment, 1953-1975 (%)

Time period	Coastal	Interior	Third Front area within the interior
1953-1957	41.8	47.8	30.6
1958-1962	42.3	53.9	36.9
1963-1965	39.4	58.0	38.2
1966-1970	30.9	66.8	52.7
1971-1975	39.4	53.5	41.1
1953-1975	40.0	55.0	40.0

Note: The coastal and interior regions do not add up to 100. The discrepancy is due to the purchase of relevant transport equipment, which cannot be broken down into individual locations.

Source: Lu and Sit (1997:6).

Towards this end, it is useful to compare some simple but telling statistics relevant to the economic outcomes of the two programmes (Table 2). Obviously, the two programmes generated very different results in terms of regional economic effects. The 156 Projects accelerated regional income levels during their period of implementation: the per capita national income in the project-concentrated provinces increased from 146 to 173 *yuan*, or from 1.19 to 1.22 times the national average. Possibly as a result of these investments, the income level in the western region exceeded the national average in 1957. By contrast, the Third Front programme did not generate any positive effects. In fact, the concentrated provinces experienced a decline in per capita national income as a ratio to the national average (from 0.72, through 0.66, to 0.65) in the period 1965-1975 (Table 2).

Three main conclusions can be drawn from the experience of state intervention in the period 1949-1978. First, state

Table 2 Regional Comparison of Per Capita National Income, 1953-1975

Year	National average (<i>yuan</i>)	Western region (<i>yuan</i> /ratio)	Concentrated provinces of the 156 Projects ¹ (<i>yuan</i> /ratio)	Concentrated provinces of the Third Front programme ² (<i>yuan</i> /ratio)
1953	122	111 (0.91)	146 (1.19)	81 (0.66)
1957	142	146 (1.03)	173 (1.22)	111 (0.78)
1962	139	149 (1.07)	154 (1.11)	105 (0.75)
1965	194	193 (0.99)	208 (1.07)	140 (0.72)
1970	235	198 (0.84)	252 (1.07)	156 (0.66)
1975	273	238 (0.87)	307 (1.13)	178 (0.65)

Notes: Figures in parentheses denote the ratio of the regional per capita national income to national average.

1. Including Liaoning, Heilongjiang, Jilin, Henan, Shanxi, Gansu and Shaanxi.

2. Including Sichuan, Hubei, Shaanxi, Henan and Guizhou.

Source: State Statistical Bureau (1999).

intervention was clearly aimed at reducing regional disparities in manufacturing industries and securing industrial bases in the anticipation of military conflict. Second, the relevant policies could have favoured the establishment of an industrial system in interior China — but did not. Certainly, they did not result in sustained regional economic development of the area. In fact, the policies failed to narrow the regional economic gap. Finally, state intervention that was more in accordance with the rules of a market economy produced more favourable outcomes. Not surprisingly, the 156 Projects located mostly in the urban areas produced more positive results than the Third Front programme.

The second period lasted from 1979 to 1999. The aim of state intervention was economic growth. Deng Xiaoping's (1993) famous quotations — "development is the only hard truth" (p.

377) and "some people and some regions get rich first" (p. 23) — symbolized the direction of central government policies.⁷ In order to achieve rapid economic growth, the coastal region, with its comparative advantage in economic growth, became the target area for state favouritism. It received a series of preferential treatments both in investment allocation and policy measures. In terms of capital investment, the central government increased its investments in energy, high-tech industries, seaports and airports, urban construction, expressways and communications infrastructure in the coastal cities. In sum, capital construction investment in 11 coastal provinces increased from 39.4% of the national total in 1971-1975 to 46.0% in 1981-1985. In 1984, Guangdong ranked first in national capital construction investment and Shanghai led in national capital investment in manufacturing industries (Lu and Sit 1997:8-9). China's Seventh Five-year Plan further revealed that investment priorities for the rest of the twentieth century would focus on the coast (Wang and Hu 1999:179).

The state's pro-coastal development orientation was demonstrated more clearly in various policies carried out during this period. First, several open zones were established including 5 special economic zones, 14 open coastal cities, 3 open delta areas (Pearl River, Yangzi and Minjiang) and 2 peninsulas (Shandong and East Liaoning). To encourage foreign investment, the state allowed these zones special autonomy in a wide range of economic activities, including the authority to approve large-scale investments, the right to retain a higher portion of earned foreign exchange and greater freedom in currency circulation. Second, various levels of tax exemptions and tax holidays were granted to foreign investors located in these zones. Third, some coastal provinces such as Guangdong were allowed to remit smaller proportions of their revenues to the state (Fan 1995:426).

Not surprisingly, state intervention of this nature resulted in fast growth in the coastal region. The disparity between coastal and interior regions since 1979 has grown (Lu and Sit 1997; Wang and Hu 1999; Wei 2000). Two conclusions can be drawn from this period in comparing it with the previous one.

First, state intervention stressed policy measures rather than capital investment. This may partly relate to the gradual weakening of the state's capacity to control investment — its revenue fell from 30.9% of gross domestic product (GDP) in 1978 to below 11% in the mid-1990s (Wang and Hu 1999:186). Second, the regional policy appeared much more effective. The central government achieved its goal of rapid economic growth, with an average annual GDP growth rate of almost 10% in the period 1979-1999.

Various assessments of state intervention in the second period have been made. Some see the policies as having been successful and judge it to have been the right approach (Hou and Hu 1995; Lu and Sit 1997). As a large developing country, according to Lu and Sit (1997:13), China's priority should be to pursue rapid, even if unbalanced, economic growth. This view has been criticized by other scholars. For example, Wang and Hu (1999:206) regarded state intervention as unfair, because it deliberately exacerbated regional gaps. With regard to the regional impact of state intervention, we argue that the policies cannot be adequately assessed without examining the nature of the disparity. We should not simply lament the existence of the gulf caused by rapid growth along the coast, and slower yet substantial growth in the west. There is a need to be mindful of the view that the situation in the west would probably not have improved as much as it has now had similar priorities been accorded to it. Furthermore, many channels can enable the west to partake of the fruits of rapid growth in the east, such as redistribution by the central government, the dispersal effect through industrial linkages, and income improvement through labour mobility. In brief, state intervention in the second period was generally rational and effective.

The Great Western Development: A New Era of Regional Policy?

The announcement of the Great Western Development Strategy in 1999 stemmed from the following principal background

considerations. First, increasing regional disparities have drawn the attention of politicians and scholars. Two groups have played a particularly critical role in pressuring the central government. One is the provincial leaders in the western region, and the other, several scholars who continuously criticized the unbalanced government policies. They lambasted the central government for "the unequal investment," "the unfair policy measures" and "the unfair market competition" (Lu and Sit 1997:10). They warned that inequality in China already exceeded that in most countries. If this trend persisted, they argued, China would soon become one of the countries in the world with the most serious inequality. This is an untenable situation that could lead to social tension and instability, even revolution (Wang and Hu 1999:200-01).

Second, the strategy follows the ex-paramount leader Deng Xiaoping who designed the following blueprint (one may call it a detailed interpretation of the "ladder-step" theory). "The coastal region should accelerate its openness to the outside. In this way this vast region of 200 million inhabitants may develop with a relevant faster speed, which can in turn spur better development in the interior. This is a major situation for the country... When developed to a certain stage, we will ask the coastal region to help the interior region with its strength. This is also another major situation" (Deng 1993:277-78). Deng further indicated that the end of the twentieth century was the time to start the second stage (p. 374). Actually, the average per capita GDP of the coastal provinces reached over 12,000 *yuan* (or nearly US\$1,500) in 2000, having far exceeded the minimum level of middle-income economies (US\$761) by the World Bank classification. They have built on their capability to sustain further development without preferential treatment from the state, as well as to support development in the interior provinces.

Third, developing China's west helps to boost domestic demand. The continuous rapid economic growth has transformed China from an economy of shortage to one of surplus in the mid-1990s. The growth rate declined from 1997 to 1999, accompanied by a shrinking domestic market, increased

stockpiles and growing unemployment. From the regional standpoint, the weak domestic demand appeared to relate to the low income-level of the large population in the interior and western regions. The per capita consumption level in the western region only accounted for 49.3% and 48.2% of the coastal provinces in 1997 and 1998, respectively. It was estimated that if the level in western and interior China reached that of the coastal provinces, China would increase its market by 1,177 billion *yuan* (Wei 2001:90).

Finally, paying heed to the ethnic minorities is another policy objective of this strategy. The western region is adjacent to 14 neighbouring countries and home to over 80% of China's ethnic minorities. Countless uprisings and rebellions in the region litter China's history. At present, the area smacks of insecurity, considering that some 42 million inhabitants live in poverty (Wei 2001:88). The call for independence is heard every now and then from some minorities. It is anticipated that the promotion of economic development in this region furthers the cause of minimizing insecurity problems.

The aims of the Great Western Development Strategy are clearly stated in the policy paper of China's State Council released in 2000.⁸ As a start, the infrastructure and ecological environment of the western region will be significantly improved in the next five to ten years. By the mid twenty-first century, as stated in the policy paper, an entirely new west is expected to emerge with a prosperous economy, a more civil society, a modest living, harmonious minority relations and a favourable environment. To reach these goals, the central government has increased capital investment as well as offered preferential policies. For example, in 2000 the state allocated to the western region over 70 billion *yuan* for infrastructure construction from domestic loans and the national budget, a dramatic increase over allocations in the past years. In 2001, the amount was further greatly increased to 300 billion *yuan*.⁹ Also planned are approximately 200 billion *yuan* to fund reforestation and ecological reconstruction by 2010. According to official documents, favoured policies cover a wide range,

including interregional fiscal transfers, land development and afforestation, tax levies, resources exploitation and conservation, foreign investment and trade, and technology and educational development (see note 6 and Office of Western Development 2001, 2002).

Four areas in the western region have been granted the priority in development: (1) the economic corridor along the Xi'an-Lanzhou-Xinjiang railway; (2) the economic belt along the upper reaches of the Yangzi River; (3) the economic region along the Nanning-Guiyang-Kunming axis; and (4) Tibet, Xinjiang and other areas with large concentrations of minority peoples (see note 6 and Office of Western Development 2001, 2002). Apart from the last mentioned, the other three target areas all have denser populations and better infrastructure which enable them to enjoy advantages in transportation — a pre-condition for development — and access to labour supplies and markets.

State intervention in the western development is showing some differences. First, the government's ability to intervene in the economy is declining. On the one hand, adopting the principles of the market economy, weakening budgetary controls and decentralized decision-making have seriously jeopardized the power of the central government in economic intervention. On the other hand, World Trade Organization (WTO) principles constrain direct public intervention in the economy. Thus, not only is the amount of state investment limited, but the rate of return from the investments should also be considered, especially from domestic loans. Second, the state is confronting a multi-dimensional task. Although it is delicate, the government has to balance economic growth with improvement in living standards, environmental protection and the sustainable utilization of resources. Third, the central government has learned a lesson from past experience and purposefully selected some areas to act as growth poles. It can be seen that market rules have been adopted in this selection. Finally, this intervention is a long-term exercise. Given the vast area and its remoteness, it will take a long time for the central government to realize its laudable goals.

Conclusion and Discussion

This paper has demonstrated the changing nature of the state's role in economic development in China's less developed western region. Historically, the state's efforts to develop this region have persisted for over two thousand years, although with periods of interruption. However, continuous government support has not markedly raised the region's economic profile. Apart from population growth, its economic development still lags far behind that of the coastal region. A sizeable proportion of the land is inhabited by people who are economically and socially deprived. Even in areas with strong central government support, such as where the Third Front projects were located, no fundamental changes have occurred. Three findings may be distilled from the historical survey. First, development in the less developed region is a real challenge for the central government, all the more so if the target region possesses only modest development potential. Evidence is strong of China's failure to develop its less developed regions during its centrally planned period when the state commanded near-absolute power in allocating resources. Second, continuous government support over a long period has not engendered local growth-generating mechanisms, and a negative impact on regional development may even have been the result. Third, compared to their capacity, the methods employed by the government to support less developed regions are crucial. This observation carries special significance for China in which the political and personal preferences of key decision-makers have almost entirely dictated the process of policy formulation.

Notwithstanding the challenges less developed regions present, the state must play its role in supporting their development. The situation has become precarious: regional disparities have reached a level that may well jeopardize further economic growth or national stability. Without such intervention, the backward region is likely to be left further behind. As some scholars have observed, "the free play of market forces tends to increase... regional inequality in a poor country" (Wang and Hu

1999:31). The critical question is: how should the government intervene in the play of market forces? Certainly, stronger state intervention does not necessarily spell better outcomes. Instead, too strong intervention can even be disastrous to economic growth and national stability, given the vulnerability of an economy in transition. Regional policies and their implementation should accord with market principles and should not be arbitrary.

Looking ahead, we agree with some scholars (Wang and Hu 1999) that government capability plays a crucial role in the economic growth of the less developed regions. However, we have reservations about their proposal that state budgetary power in the twenty-first century should be rebuilt, arising from our concern that the development of the west should not hinder growth in the coastal provinces. The strong central-extractive policy that was typical of the Maoist era, would sap the motivation of the fast-growth provinces. We are also of the view that state intervention in China's economy is not weak, indeed that it is still rather strong. Enhancing state control is more likely to adversely affect the investment environment for foreign capital. In policy terms, a number of propositions warrant scrutiny.

First, priority should shift from national industrialization to local interests, especially those of the local people. The development of the western region has historically been driven by national interests, not least in the period from the 1950s to 1970s. The 156 Projects and Third Front programme were planned mainly for the purpose of building a national industrial system. Although the local area has derived benefit from the policy, its socioeconomic development was not a major policy goal. Consequently, government policies in general failed to promote local development. Given the long history of human occupancy and the often harsh environment, the imperative in the current western development should focus squarely on "people becoming well-off" rather than on fostering a "booming region." Put differently, not every local area should be developed. For those areas where the ecological environment is

vulnerable and untenable, the residents should emigrate to other suitable areas. This can in turn boost urbanization if migration is channelled to towns and cities.

The second issue relates to the triggering mechanism of western development. Learning lessons from past experience, state intervention must go hand in hand with the market mechanism. In other words, state support should be implemented through market rules. At least four points need to be highlighted here. First, state investment should be used as an engine to motivate other sources of capital — as a catalyst, to be precise. The multi-dimensional investment more likely yields sustainable economic growth. Heavily relying on state capital would place the region at a high risk. Second, economic growth in the region should not be entirely driven by capital investment. Domestic demand and exports should also play their part. The central and provincial governments should take their cue here. Third, the government should be mindful of the return rates of state investment when implementing relevant projects. Taking heed of this issue is particularly important because the Chinese government has had a penchant for stressing the political or social outcomes of state investment at the expense of economic returns. Finally, clustering of economic activities is the most distinctive feature of the space economy (Sunley 2000:193). The advantages of infrastructure, information, personnel and relevant supporting services elevate clusters to higher development potential. Following this market rule, various levels of growth centre can be selected on the basis of cities and towns. Being identified as priority points for development, they are more likely to achieve rapid economic growth in the development of the west.

The third issue is in the domain of education. Huge state investments in infrastructure certainly augur well for the western region. However, public investment in education is equally, if not more, important. Empirical evidence drawn from many countries, China included (Brist and Caplan 1999; Han 2001; Popper and Mandel 2002), supports the significant positive correlation between education investment and economic

development. A lower-income region is frequently associated with a poorer educational status, and China's western region is no exception. Education at every level in the region is far behind not only the coastal region, but also the national average. The situation in pre-college education is even more appalling. Data show that, in 2000, Qinghai and Tibet provinces had an illiteracy rate of 43.5% and 54.3% respectively, compared to the national average of 11.6%. Furthermore, among students in the sixth grade in the western region, 10-15% were unable to continue their studies, while 50-65% of lower-secondary school graduates could not continue their studies (Shi and Liu 2001:154). It cannot be over-emphasized that education stands out as a sector in need of sustained public investment. Through education, people can obtain the skills and ability to earn a better living; education is also a basic and comprehensive strategy modernizing a less developed region.

Finally, institutional innovation is fundamental to the development of the west. Why have some provinces (like Zhejiang, which has not obtained much preferential treatment from the central government) achieved rapid economic growth since 1978? Why have those provinces in the southeast kept growing rapidly even after government policy has veered to the inland area? Apparently, endogenous factors, including institutional strengths, offer plausible explanations. Specifically, cultural values and institutional thickness have played key roles. Compared to the culture in the southeastern coast in which people habitually take risks running industrial and commercial businesses, the vast west has not changed a great deal from its traditional agricultural society. As long as they have enough to eat, people are content to stay in small-scale, low-return household farming. In terms of the notion of institutional thickness defined by Amin and Thrift (1994, 1995), its main elements — strong institutional presence, high levels of interaction among the institutions and a common industrial purpose — can be found in the fast-growth provinces. These factors promote high growth of private businesses, which have become the economic mainstay in those provinces. For instance,

the private and collective sectors have accounted for over 80% of the industrial output in Zhejiang, Fujian, Guangdong and Jiangsu in 1995. This contributes largely to the economic gap with the western region, where the state-owned sector still occupied 65.5% in the same year (Wei 2000:106).

The western region covers a huge part of China. This region differs from the American West, eastern Russia and inland Brazil, both in development history and geographical conditions. To be specific, China's west is inhabited by 366.9 million people (State Statistical Bureau 2002), even though large stretches of the land are inhospitable, comprising mountains, deserts and rugged terrain. In terms of carrying capacity, one-fifth of the land area is assessed as overloaded (Li et al. 2001:92). This makes it less likely that China will be able to directly transfer the experiences of other countries that have developed their frontier regions. As a transition economy, China sorely needs new ways of thinking and well-designed methods to develop its western region.

This study has focused on the state's role in the development of China's western region. Its development has been influenced by the processes of globalization, albeit in a much more limited form as compared with that experienced by the coastal provinces (Li, Zhang and Peng 2000). Following its entry to the WTO, China is moving to continued openness. What is certain is that globalization is going to bear more heavily on China's western development. At the same time, some endogenous forces, such as the local culture mentioned earlier, are likely to figure more prominently in the development of the west. Studies of these factors and their interactions deserve more scholarly and policy attention if China is to attain its development goals for the western region in a new era that has just dawned.

Notes

1. The definition of the western region, as employed in this paper, is the one used by the State Council of China in its western development policy paper of 2001 (Office of

Western Development 2001). This definition is different from the one commonly used since 1985, in which Guangxi and Inner Mongolia were not included. For purposes of analytical convenience, the other provinces and municipalities are referred to in this paper as "the eastern region." Within the eastern region, the notion of coastal provinces (or coastal regions) is used to refer to the 11 provinces and municipalities of the coastal belt extending from Liaoning, through Beijing, Tianjin, Hebei, Shandong, Jiangsu, Shanghai, Zhejiang, Fujian and Guangdong, to Hainan.

2. Using free land to entice new settlers is very similar to the U.S. approach towards developing its western region in the eighteenth and nineteenth centuries. See Craf (1952).
3. See Volumes 3, 24 and 67 of *Suishu*.
4. The First Five-year Plan released in 1955 identifies 156 major Soviet aided projects. But as two of them were double counted and four were not implemented, the actual total is 150. Dong (1999) provides a detailed accounting of this programme.
5. The Third Front refers to a geographical area covering Sichuan, Guizhou, Gansu, Shaanxi, and west parts of Hunan, Hubei and Henan. The Third Front construction programme, begun in 1965 and lasting until 1975, was designed to allocate massive resources to develop defence-oriented industries constructed in the remote Third Front region (Wei 1999).
6. Under the rigorous planning system, major decisions of SOEs were determined by the state authorities. The marketing of SOEs was carried out by the State Planning Commission, sales and distribution by the Ministry of Commerce, and materials and parts supply by the Ministry of Goods and Materials (Li 2002).
7. Chinese politicians usually regard "growth" as synonym for "development." Thus, that "development is the only

hard truth" was interpreted as "growth-first" in guiding government policies. Deng Xiaoping (1993:375) frequently called for high-speed growth and regarded low growth as "stagnancy," even "decline."

8. This is the basic government document on the Great Western Development, which has guided the several following official documents and a five-year overall plan by the Office of Western Development under the State Council (State Council 2000).
9. See <http://www.developwest.gov.cn/content.asp?filename=txt/20010918001.htm>.

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