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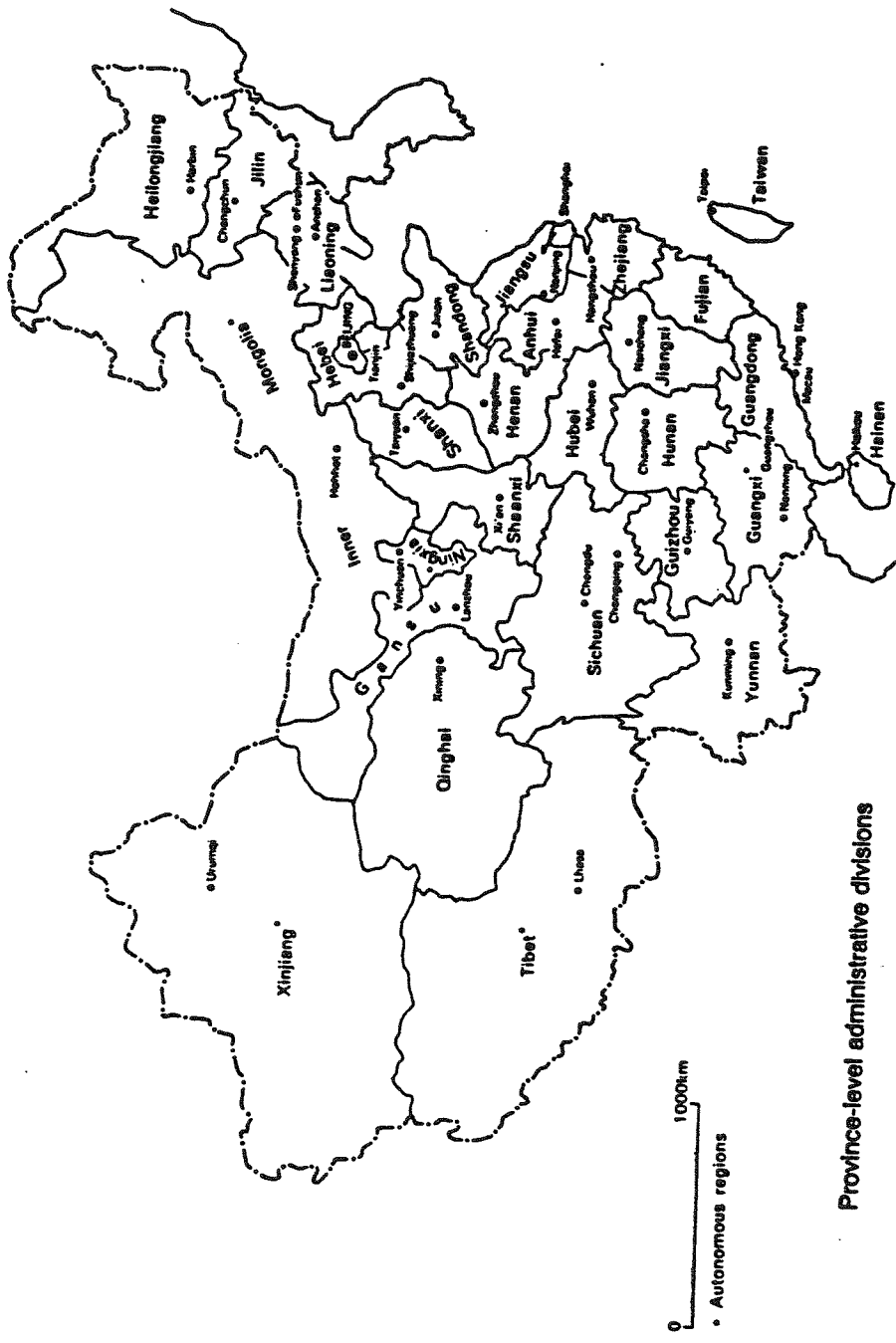
**REGIONS, INEQUALITY AND
SPATIAL POLICY IN CHINA**

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Both parts of this Working Paper will be published as parts of:
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Contents

Introduction	1
Part 1	
Spatial inequality and Regional Policy	2
Inequalities in Spatial and Regional terms	2
The urban-rural divide	
The state as major determinant of spatial differences	
The inadequacy of simplified regions	
Regions in the Revolution	6
Inherited inequalities	
The first Five-Year Plan and its aftermath	
Conflict over the Soviet model	
The 'Third Front' and strategic factors in regional development	
Post-Mao Economic Reform and its Regional Impact	10
Urban reforms for industrial growth	
Regional comparative advantage	
Decentralisation and the dilution of planning	
Pressures for new province-level authorities	
Impact of the 'open door' policy on location of economic activity	
Emergence of the Coastal Region as dominant	
The east-west divide	
Policies for the west and minorities	
Economic crisis and the reforms	
Regional policies in the 1980s	24
Regions in the Seventh 5-Year Plan	
Prospects for the coming years	26
Part 2	
The impact of China's 1989 crisis on regional development and spatial change	29
Recentralising the economy and slowing growth	30
Centralisation and planning versus local autonomy	31
Investments in weak economic sectors?	
Problems of local autonomy?	
Regionalism and priority areas	
Continued Priority for the coastal region?	33
Town & village enterprise areas: difficult times ahead?	
Special Economic Zones and Coastal Open Districts	
Traditional port and industrial areas: preferential treatment?	
The Central and Western Regions	
Regional policy changes	
Non-Han minority peoples and the west	
Urbanisation and Rural-Urban Relations	39
Conclusion	40



Province-level administrative divisions

Regions, inequality and spatial policy in China

Introduction

The social and economic characteristics of China vary tremendously from place to place, and the contrasts are so sharp that they surprise people who do not know the country well. For instance, even the averaged per capita consumption of Beijing city-dwellers is nearly five times higher than that of the peasants of Gansu, one of the poorest provinces. Many factors contribute to such differences, including government policy and economic decisions, as well as natural conditions. In turn, government policies themselves may be devised which are designed to reduce differences. This Working Paper is concerned with the way in which regional (and some other spatial) differences have arisen in modern China, and with regional policies and the extent that they have (intentionally or unintentionally) altered those differences. It is in two parts: the first looks at some of the patterns inherited by the new communist government in 1949, and how that government has influenced the spatial patterning of economic activity and people's income and welfare since 1949. It examines how far since 1949 (and especially since 1979) the communist party's policies have responded to perceived inequalities, and the degree that policies have had a deliberate or accidental geographical impact. The first part was written before the events of May and June 1989. Since then, there have been important changes in the leadership, and in economic policies. Some of those changes indicate that regional issues were significant in the social pressures which led to the protests and massacres in 1989. Part 2 is intended as a preliminary analysis of the policy changes in so far as they may have been influenced by regional issues, and makes an assesment of their likely impact on regions and policies affecting regions.

Both parts of this working paper will appear later in 1990 in The Geography of Contemporary China: the Impact of Deng Xiaoping's Decade (Edited by Terry Cannon & Alan Jenkins), London: Routledge. Part 1 forms chapter 2 of the book, and Part 2 is a Postscript, designed to interpret the changes resulting from the 1989 events. Comments are still very much welcomed as I will continue to work on these issues.

Part 1

Spatial inequality and regional policy

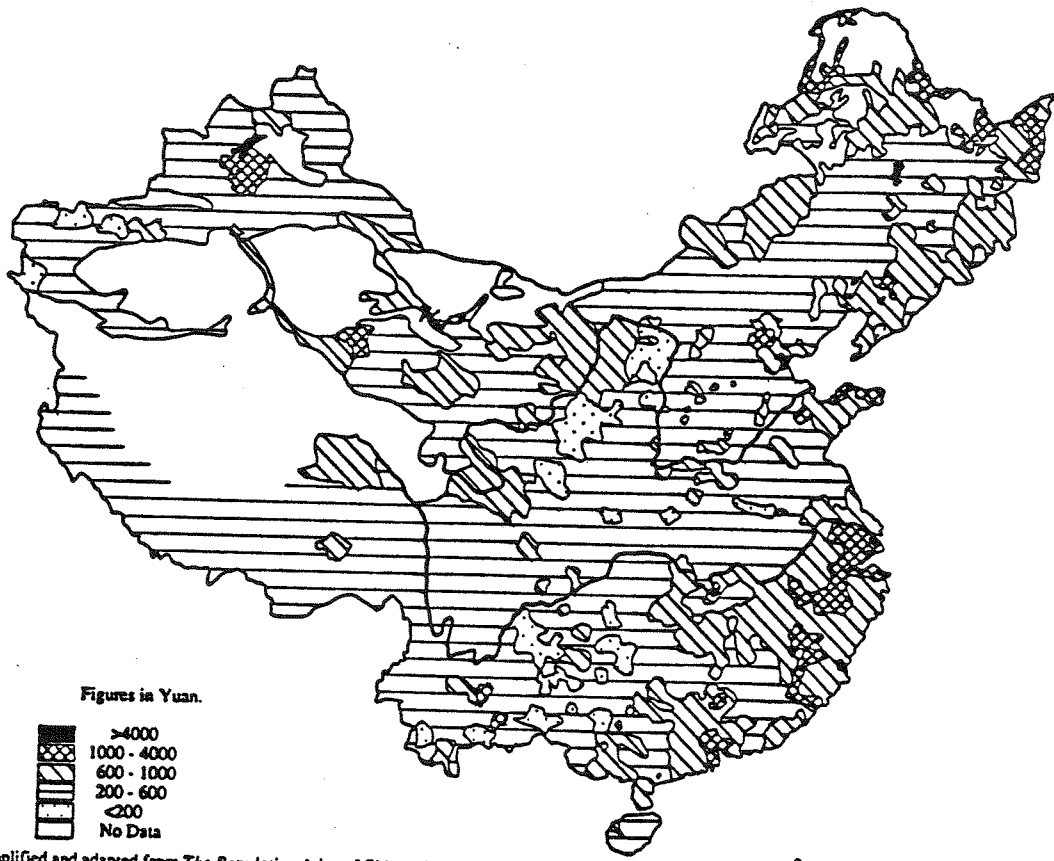
Despite wide and significant differences in economic activity, income and welfare in different parts of China, I would argue that only occasionally has the leadership shown concern to reduce certain forms of spatial inequality: the Communist Party of China (CPC) has been motivated much more by military strategy or its notion of economic efficiency. It has therefore been more interested in determining where economic activity should be located, rather than addressing income or welfare differences.

This should not be surprising: the revolution was not aimed at removing all inequalities, but rather to end class exploitation and foreign domination. Many geographical differences are not the result of exploitation, arising from natural conditions (like climate), or from living in locations which enjoy an advantage (for instance in access to markets for the sale of produce). These have not often been a communist priority, since it can easily be assumed that they are not the result of one class enriching itself at the expense of another. Dealing with such differences has to await the greater affluence of fully-developed communism, at which time society can share on the basis of need. In the meantime, limited programmes of aid to poorer districts have been used, as well as disaster aid after the effect of hazards.

Inequalities in spatial and regional terms

Until the 1980s, the Chinese state had a virtual monopoly in providing information about the country to the world. The quality of that information was not good. The predominant image of the country was one in which party policy could be implemented throughout the land, and of a society virtually homogenous in its economic and social characteristics as a result of this allpervading presence. Independent travel was difficult, so foreigners went mainly in organised groups to a few places, and gained an impression (or wanted to believe) that things were much the same everywhere.

Since 1979, much more (and better) information has become available, and from more sources than the government alone. There is now greater awareness of spatial differences within the country, even if these are mostly seen in terms of very general contrasts between rather ill-defined regions (especially between 'the Coast' and the rest). Even so, most data was available only at the level of China's twenty-nine provinces, and this made careful regional analysis impossible. Fortunately, in 1982 there was a detailed census from which there are statistics relating to China's more than two thousand counties. These allow a much finer understanding of spatial variations, which are shown to be much more complex than can be represented on a 'regional' basis using simply provinces. Figure 1 is a simplified map showing the per capita Gross Value of Industrial and Agricultural Output on a county basis. This data is of production for the two main sectors of the economy, not of income, but is a useful measure of relative levels of wealth across the country. One thing which is



Simplified and adapted from *The Population Atlas of China, 1982*, O.U.P., 1988 by Terry Cannon

Figure 1 Per capita gross value of industrial and agricultural output (GVIAO), by county

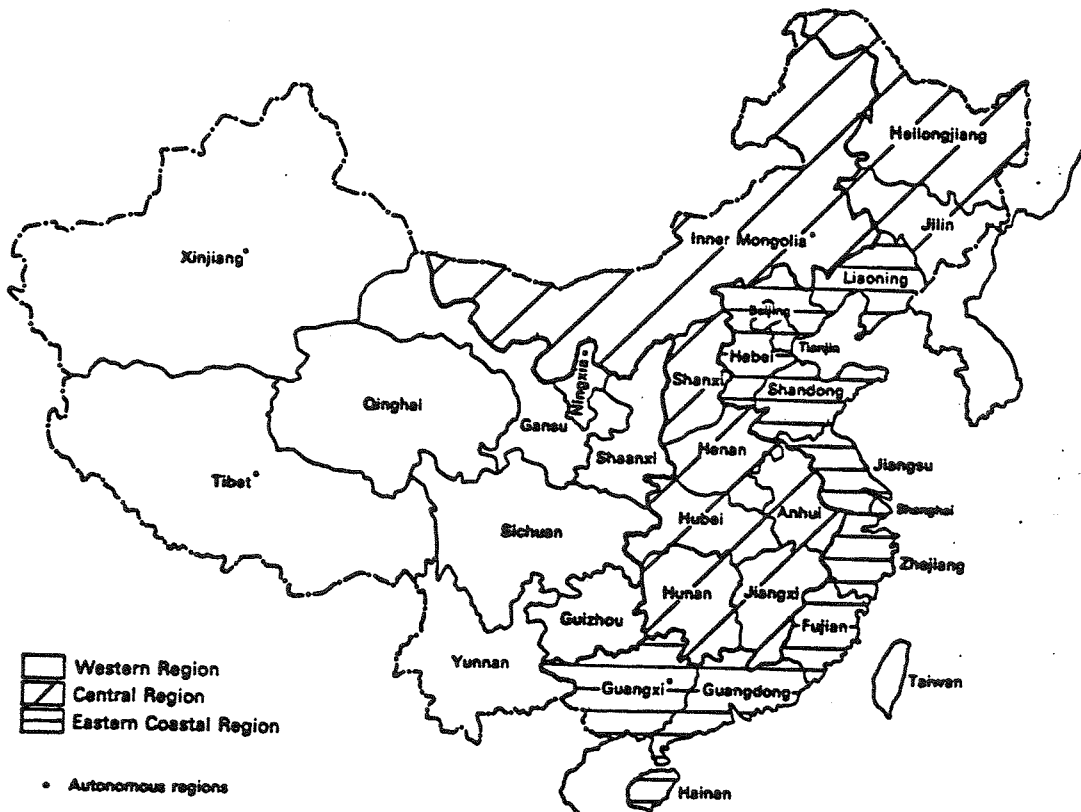


Figure 2 Tripartite regionalisation used in the Seventh Five-Year Plan 1986-90

apparent is the high level of variation, and the lack of any clear, simple regional pattern. But such data provides only part of the picture: regions are not the only form in which spatial differences show up. Of crucial 'non-regional' importance for instance is the dynamic which connects and separates town and countryside. This is not dealt with in this paper; here the main focus is on larger-scale regions and the economic, political and social processes in China and the world which have had a spatial impact in China. Unfortunately, despite the data available from the census, it is done in highly simplified macro-regional terms. In fact for much of the discussion, reference is made to just three very large regions: the Coastal, Central and Western (Figure 2). This is far from adequate, given their high degree of internal differentiation. But it is necessary here for simplification, and more especially because it is by reference to these three that the Chinese themselves now debate regional issues and define regional objectives. Before looking at them in more detail, there are a number of other spatial matters to mention.

The urban-rural divide

Urban dwellers enjoyed generally higher standards of living than most peasants, at least until the rural reforms begun in 1979. This gap between town and countryside, worker and peasant, was significant to the Maoists. They argued that in some respects it was a class division, based on the greater use of the surplus generated by the whole of society by a small privileged section in the cities. For them, it also represented a reversal of the history of the revolution, whose success had depended mainly on the help from the farming communities in poorer areas which were being left behind.

This spatial inequality was addressed in the Great Leap Forward (1958-61) and Cultural Revolution (1966-76) by policies which were supposedly pro-poor peasant. These were really the only times when such special attention has been paid to peasant priorities for egalitarian reasons. In the mid-1960s, Mao rebuked the health ministry for running a system favouring 'urban gentlemen' because of the virtually complete lack of organized health care in the countryside.

The policy he developed of medical teams going from the cities to train 'barefoot doctors' (peasant para-medics) was extended to much wider 'sending-down' of educated young people during the Cultural Revolution, with the intention of increasing rural education. As is now known, many who went then, and the older intellectuals who followed, were unwilling participants in this cultural revolution policy, and the value it had for the peasants is questionable. But other than during that period, spatial inequalities have not figured very high on CPC priorities.

The state as major determinant of spatial differences

What is unusual about spatial inequalities in China is that the government, since 1949, has had the ability to shape the country spatially much more than most. Because of its central control of the economy, and command over a large proportion of investment funds, it has the capability (not always used) to alter differences in welfare between places.

Yet this control is not universal or complete: there is also spatial inequality in the government's effectiveness. The country is immense, communications are difficult, and there are political and administrative weaknesses in the CPC itself. During the Cultural Revolution, nearly two decades after the party came to power, a group of Red Guards arrived in a remote valley in the southwest, the first visitors from the political realm for a very long time. The peasants who received them had a question: who is the Emperor? The local people were aware that they lived in territory over which Chinese emperors supposedly ruled, yet the impact of this on their lives for decades had been practically non-existent.

This is an extreme case, but illustrates quite how diverse the country is. Spatial variation is influenced by many factors, including natural conditions of climate and resource endowments, and the various sorts of economic system which people have come to operate in different places. These vary enormously, including cultivation in oases in the far west, slash and burn farming in the southwest, as well as the more familiar intensive farming and industrialism of the east. To these factors must be added the actions (or inaction) of government.

The inadequacy of simplified regions

As a result of all these, China is an enormously intricate patchwork of social and economic variation, not easily subsumed into a few large regions. The use here of the three simplified regions designated by China is inadequate, and needs to be qualified so as not to assume too much similarity within them. For instance, income differences can vary greatly over quite short distances (even between neighbouring villages). It is evident (from 1982 census data - see Figure 1) that some counties less than 250 km from Shanghai, in what is often considered the 'wealthy' Coastal region, are amongst the poorest in the country. Conversely, some of those which have highest per capita agricultural incomes are in Tibet and Xinjiang, which are part of the 'poor' Western region (see Figure 2).

The ways that regions are conceived can vary enormously. An area of territory may be considered a region by virtue of its apparent internal sharing of chosen characteristics (e.g. topographic or socio-economic) which make it distinct from those of neighbouring territory. Alternatively, a region may be designated by the state for the purpose of generating certain shared characteristics or other policy objectives within a given area of territory, which if achieved would distinguish it from the surrounding areas.

The three macro-regions represent a type of region which both identifies certain crude shared internal characteristics, which are then linked to the setting of broad objectives in economic development. These were formally set out in the 7th Five-Year Plan (FYP) for 1986-90, and are discussed in that context later. Meanwhile, they will be used to provide a much simplified understanding of change in China's economic development since 1949.

Regions in the revolution

When the communist government came to power in 1949, the country had been at war within itself or against the Japanese for more than thirty years. The legacy of tremendous destruction and disruption of the economy was overcome remarkably quickly, especially given the lack of experience of the CPC in managing large industry and cities.

Inherited inequalities

Virtually all industrial activity in 1949 was located in two types of area, both now considered to be part of the Coastal region. These were firstly the disconnected and highly localized developments in cities - all of them ex-treaty ports - on the coastal fringe (e.g. Shanghai, Tianjin, and Qingdao), where foreign entrepreneurs and their Chinese emulators had established various businesses after 1840. Secondly, in the northeast provinces which collectively became known as Manchuria, Russian and later Japanese colonisation led to significant development of raw material resources, especially iron and coal, and heavy industry, much of it serving the needs of the Japanese economy.

The rest of the country was virtually devoid of modern industry: Beijing (Peking), though not very distant from either of the areas mentioned had virtually none. Other cities which today are notorious for their industrial pollution, many of them far inland like Taiyuan, Xian, Wuhan, Chengdu, Lanzhou, or Kunming, were innocent of such disturbances. This does not mean that China had never had industry. In many respects the nation had been more advanced than anywhere else in the world in Song times (12th and 13th centuries AD), and some industries (employing many thousands) were continuously successful long after that. But agriculture continued to dominate, and even the inroads of foreign-initiated industry after 1840 made little impact. China remained having but 'a modern hem on an ancient garment'.

The First Five Year Plan and its aftermath

The system of central planning begun in China in the first FYP of 1953-57 owed much to the Soviet experience, and was indeed largely financed and directed by loans and technicians from the USSR. This 'command economy' established a large number of important enterprises in sectors such as iron and steel, metallurgy, chemicals, electricity generation, coal mining and textiles. In short, the emphasis was on large-scale plants, and a lot of them in heavy industry, and under strict central control.

The plan partly reflected the Soviet Union's domination over communist politics. But it was also a product of the international environment with which the new Chinese state found itself having to cope. In this, strategic concerns determined both the nature of rapid accumulation, and the location of investment.

The very nature of the industry on which the plan concentrated also had its spatial effect. Much of it relied on coal and other locationally specific raw materials, and so was concentrated into relatively few (but large) centres (known as the Key Point

cities). This meant that the benefits of the new jobs were spread beyond the Coastal region, but to relatively few places in the other regions. Being spread so thinly, this industrial growth hardly constitutes the creation of a new regional pattern. But the impact was to disperse a significant amount of industrial capacity (Figure 3). Of nearly 700 large and medium-scale projects under way in the 1st FYP, two-thirds were inland.

In the post-1949 'cold war' atmosphere, China was effectively embargoed by the Western powers, and so self-reliance and acceptance of Soviet aid was a result of constrained options rather than ideology alone. The Korean War (1950-53) and its aftermath put China on a war footing, and this also affected the type of industries which were given priority. But this also determined that military-strategic concerns affected the location of the new projects. To reduce risks from possible bombing and invasion on the coast, many of the new industries were spread inland. Defence remained a very significant factor in the location of industry until the 1970s.

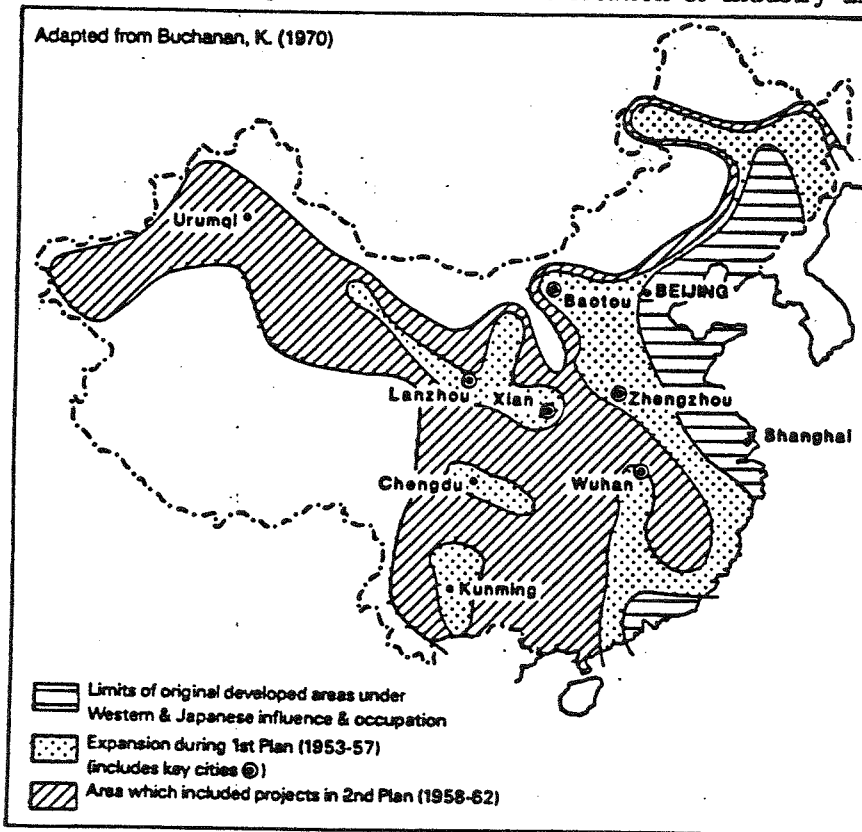


Figure 3 The inland spread of industry in the First and Second Five-Year Plan

Conflict over the Soviet model

In 1956, a year before the formal ending of the Plan, Mao Zedong advocated a reduction in what he saw as the plan's concentration in the interior, and a more favourable attitude to development in the Coastal region. In a major party speech ('On the Ten Major Relationships'), he maintained that the interior should still receive ninety per cent of the investment, implying that the coast had been getting virtually none. He argued that the development of the interior would be helped by the greater

accumulation of capital made available from the more rapid advance of the coast. It is a view more consistent with that of the 1980s reformers than those with which Mao is generally associated.

Inherent in this argument is a set of conflicts over economic policy and regional priorities which are still controversial today. Should there be regional specialisation based on comparative advantage, which might allow the (more efficient) coast to race ahead? Instead, ought there to be a more equitable locational policy, or would this actually cost more in resources because it reduces production efficiency?

During the phase which followed the 1st FYP, it was in effect policy that there should not be regional specialisation, on the basis that economic considerations were insufficient to judge efficiency. From late 1957, Mao Zedong promoted a development strategy known as the Great Leap Forward (GLF) which was diametrically opposed to the 1st FYP in its principles. The name indicates something of the intention: rapid agricultural development and the initiation of rural small-scale industrialization, with all areas attempting local self-sufficiency in some key industrial products.

In theory the GLF (and the concurrent Commune system) was intended to promote a greater spread of economic opportunity throughout rural China. This was to be, even at the expense of 'efficiency' as normally defined. But to understand the GLF once again requires an appreciation of the international situation, and the growing threat after 1958 in the south of China. Taiwan was increasingly belligerent towards the People's Republic at the same time as the USA was planning to base nuclear missiles on that island. As if this were not enough, antagonism with the USSR led in 1960 to the Soviet Union withdrawing its aid, and the beginning of the thirty year rift.

The 'Third Front' and strategic factors in regional development

Even after coming to power, and with national defence much in mind, the CPC government retained a form of strategic regionalisation which divided the country into six military regions, each with its headquarters in a major provincial city. It was based on the idea of regional self-sufficiency in the production of key minerals and industrial products, so that in event of civil war or invasion there were smaller units which supposedly could survive independently. The nature of external threats changed in the 1960s, and required another approach. The military threat was from both superpowers, so where could economic and military activity now be placed for security?

A quite extraordinary episode in regional development now emerged, lasting from about 1965 to the early 1970s. It is now known that over a seven-year period, there were massive and secret investments in certain parts of the country known as the Third Front (sanxian) region. They were in the southwest of the country (Figure 4), thought safest from invasion and bombing. Such was the nature and size of these developments and their associated transfers of personnel, that the effects on the efficiency of the economy are likely to continue for some time to come.

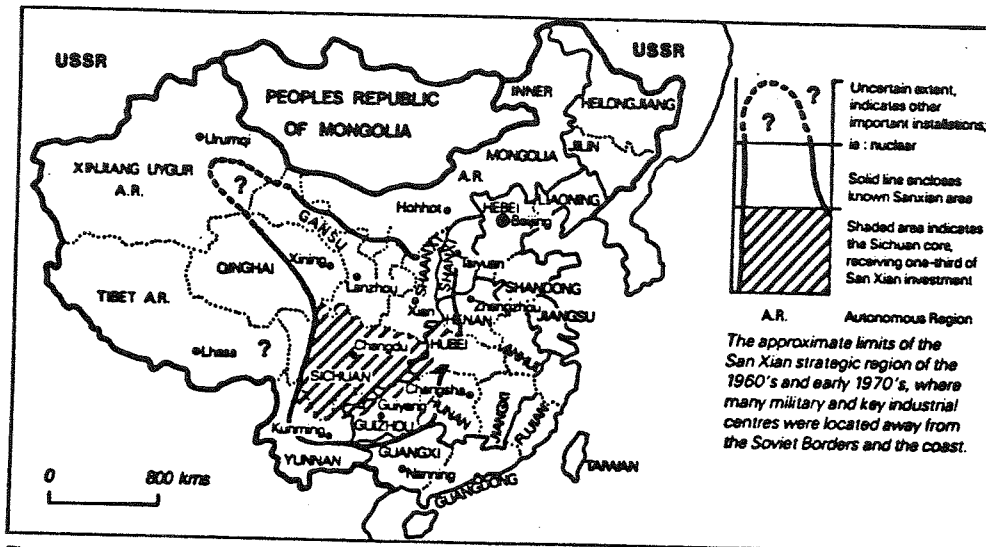


Figure 4 The sanxian (Third Front) region of large-scale strategic investment, c. 1965-72
Source: Information in China Daily, 27 May 1987 and unpublished papers.

The answer to the threat of attack from either or both the USA and the USSR was a policy to duplicate or withdraw many industrial enterprises, research establishments and military installations into this interior heartland. The first front was regarded as the highly vulnerable coastal cities; the second a rather vague 'intermediate zone' between the first and third.

The core province of the Third Front was Sichuan, an inland basin of rich agricultural land, relatively well off in fuels, and surrounded by mountains. The neighbouring provinces or parts of them were also involved (Guizhou, Yunnan, Shaanxi, Gansu, and the western parts of Henan, Hubei and Hunan). Further west in Tibet, Qinghai and Xinjiang, other military and nuclear establishments were built up or expanded under this policy, making eleven provinces involved in all.

The sanxian policy relied on safeguarding crucial productive capacity and research facilities in order to prosecute a war from a protected heartland. Its location was dictated by the threat from all sides, and the resultant industrial development is significantly different from the 1st FYP strategic policy, which had no need to avoid places near the Soviet and Mongolian borders.

Although US President Nixon's diplomatic openings with China in 1972 reduced the threat of US aggression and complete hostile encirclement broken, very little has been known about sanxian outside China until relatively recently. The story emerged because of the current need to use the technology and personnel locked into the secret economy for civil purposes. Today the international situation hardly warrants such a strategic measure in any case, and China is more interested in using the productive and research capabilities of the Third Front establishments for modernising and developing the rest of the economy.

The revelations about the policy show an astounding scale of investment, involving billions of yuan on several huge key projects. That China's fifth largest iron and steel

works today is at Panzhihua, on the borders of Sichuan and Yunnan in a very mountainous area, gives some idea of the scale and nature of the policy. China correspondent of The Guardian reported in 1988 that Panzhihua, which began from scratch twenty years ago, with the first workers living in huts without sufficient food, is now a city of more than 850,000 people.

Most staggering of all though are the amounts of capital invested in the Third Front region. About 29,000 institutions of all sizes were involved, and of these around two thousand were large and medium enterprises (in all China there were only five thousand so defined in 1981). Looking at the eight provinces nearer the heart of the region (i.e. excluding Tibet, Qinghai and Xinjiang), their share of total national investment is put at nearly 53 per cent in 1966-70, and 41 per cent in 1971-75. By contrast, their share of the national total investment made in 1985 in fixed assets was only 24.6 per cent.

One study of this strategic region asserts with reason that 'We can safely conclude that at least two-thirds of budgetary industrial investment went to the Third Front during its prime construction period' (Naughton 1988 p.366). The population in this region is around 38 per cent of China's total, suggesting that the massive 'excess' investment (when compared with the share of population) in the sanxian period has in the 1980s been reversed to considerable 'under-investment'.

The dispersal of enterprises and institutions under the sanxian policy had little at all to do with bringing about spatial equality. Interpretations which assume that Chinese policy has been concerned with this are misguided. At times in CPC debates, the question of greater regional equality has been raised, but the evidence is that major investment shifts, which have indeed had such massive regional effects, have been almost entirely for strategic reasons. The CPC has undoubtedly got the capacity to bring about major shifts in resources between regions, and on a number of occasions has done so. But the motivation has been to strengthen and preserve the country, not to equalise consumption or welfare between provinces. All analyses of the country's economy until very recently have had no knowledge of this factor, and so are fundamentally flawed.

Post-Mao economic reform and its regional impact

The post-Mao era since 1979 has been marked by a major shift in emphasis, away from 'politics' to the promotion of 'economic' priorities, embodied in the Four Modernizations (of industry, agriculture, science/technology and defence). This does not mean that China is devoid of politics. But political struggle and the time-consuming discussion of what is politically correct should no longer handicap the production process. Each of the modernizations has been promoted by a series of economic reforms, of which those affecting rural production were among the earliest (begun in 1979).

Although many rural people enjoy the higher living standards which have accompanied the reforms, there is significant spatial inequality in the impact of the reforms. Significant poverty and hunger exists in areas officially acknowledged to include 100 million people. This requires the state to provide limited aid to certain counties.

Urban reforms for industrial growth

'Urban' reforms, directed at reorganising industry, were more difficult to implement. Their key characteristic is reduced central control over the economy. At lower levels of the administrative hierarchy, where previously orders were received from superior authorities, there is now much greater autonomy and new financial arrangements which reduce dependence on the centre. But there has been significant opposition from old-guard CPC members who still favour centralized control.

This decentralisation has had regional and spatial objectives associated with it, for instance the encouragement of regional comparative advantage as opposed to regional self-sufficiency. In parallel with the reform of industry have come policies to encourage new spatial forms in the economy, such as the designation of regional associations of enterprises which cut across province boundaries. Instead of the plan emphasison hierarchy and vertical integration of enterprises, the reforms encourage 'horizontal linkages'. Additionally, the post-Mao policies include the 'open door' to foreign investment and trade, and this has also had its regional impact in its affects on industry and commerce.

So in various ways, there are new regional strengths and weaknesses emerging, and these are contributing to the economic and political crises which have affected the success and continuity of the reform period. Most serious of these, as will be seen, are the growing protests at the 'gap' between the west and the coast, and the way in which local (especially provincial) economic power has disrupted the objectives of reform and led to serious conflicts between areas.

Regional comparative advantage

China's leaders have argued in recent years that regional or local self-sufficiency is inefficient and that instead the country must pursue a policy of allowing some areas to 'get rich first'. As a 1985 article in Beijing Review put it: 'China is vast, and its natural and production conditions vary from place to place...Therefore the pace at which areas and peoples become prosperous will never be simultaneous'. This is a clear spatial implication of the economic 'reforms' of the past decade, and is related to the increased role granted to the market. It is analogous with the policy that some individual peasants or entrepreneurs should be allowed to become rich before others.

It is really a policy of regional comparative advantage: particular areas are thought more efficient at producing some things rather than others, so they should specialize by exploiting their cost advantage. The surpluses and deficits which arise for the

Table 1 Macro-regions of the Seventh Five-Year Plan: proportion of population by region compared with share of investment, 1985

Region	Population		Total investment in fixed assets ^a	
	Millions	Per cent	RMB ^b millions	Per cent
Coastal	429.96	41.3	127,483.0	52.7
Central	371.25	35.7	74,675.0	30.9
Western	239.87	23.0	39,597.0	16.4
Total	1,041.08		241,755.0	

Source: *Statistical Year Book of China 1986*, (1987) Hong Kong: Oxford University Press, p. 73 (population), p. 367 (investment).

Notes: ^a 'Total investment in fixed assets' is a category which shows the amount of work done in construction and purchase of fixed assets by state-owned, urban and collective units and individuals, expressed in money terms.

^b RMB = Renminbi, the official name of the currency unit yuan (¥).

Table 3 Comparison of the value of production in industry and agriculture in the three macro-regions in 1985

Region	1985 (billions of yuan)	Increase over 1980 (per cent)	Percentage of total production	
			1980	1985
Value of industrial output				
Coastal	56.64	79.5	60.0	61.2
Central	24.57	71.6	27.3	26.5
Western	11.34	70.5	12.7	12.3
Total	92.55	76.2	100.0	100.0
Value of agricultural output				
Coastal	12.62	51.8	42.8	43.3
Central	10.63	49.5	36.6	36.5
Western	5.87	46.3	20.6	20.2
Total	29.12	49.8	100.0	100.0
Value of industrial and agricultural production				
Coastal	69.27	73.7	55.4	56.9
Central	35.2	64.3	29.8	28.9
Western	17.21	61.4	14.8	14.2
Total	121.68	69.1	100.0	100.0

Source: 'Economic growth in different areas', *Beijing Review* 29, 49: 8 December 1986.

different products of each should be equalised through increased inter-regional trade (despite the inadequacies of the transport network). This contradicts the 1950s and 1960s policies aimed at regional self-sufficiency in order to reduce transport needs and improve defence capabilities.

Such regional specialisation is meant to be a result of the operation of market forces, at least in part. But the government also has a clear notion of what pattern it prefers, based on what it sees as existing material conditions. This preference is demonstrated in the way the three macro-regions have been drawn up in the 7th FYP (see Table 1 and Figure 2). Each of the three is described in terms of its existing resources, and the economic priorities it is supposed to pursue in the next ten years or so. It is the explicit promotion of the rapid advance of the Coastal Region in this which has resulted in conflict and protests from the leaders of both central and western provinces. Although some basic characteristics and priorities for the three regions are given in Tables 1, 2 and 3, it needs to be remembered that there is much internal variation within each of them.

Decentralisation and the dilution of planning

The central planning system was already largely decentralised during the 1970s in the sense that the Beijing authorities did not try to run everything. State-owned industry was delegated to the provinces, and even some city governments. But the crucial issue was who controlled profits and investment funds: before 1979 these stayed firmly in the hands of the centre. Since then, this too has been decentralised, and the centre allows local-level bodies to hold on to more of their profits, and pay a tax to the centre instead.

It is this transfer of control over funds which has largely been responsible for the boom in the industrial sector since 1980, with growth rates of well over 10 per cent per annum, much higher in some years. The authorities which have gained more control over profits and capital are not so much the provinces but local authorities including cities, townships and counties. These lower-level governments have in effect gone into business, often in a big way. Enterprise culture in China is based on bureaucrats and local Party chiefs turned capitalists, and much of this growth is in rural areas.

The post-Mao government has also reduced the rigid 'central' planning which it regarded as a constraint on the economy, by the devolution power to enterprises themselves, though combined with the exercise of much greater control in their sphere by local levels of government, a tension has been created between the objectives of enterprise managers and the local bodies which oversee them.

In effect, the urban reforms mean the loss of control of much of the economy by central government. This is evident in a number of ways beyond the intended decentralisation, including the deliberate flouting by lower level authorities of government directives and regulations. Some of these had been intended to minimize

Table 2 Macro-regions of the Seventh Five-Year Plan: proposals for specialisation and differential development of the regions

COASTAL

- Technological updating of existing industries and creation of new industries, especially in high value and consumer goods, using central-government investment and foreign partners.
 - Special Economic Zones, open coastal cities and other areas to grow rapidly and become bases of expanded foreign trade, and act as training grounds for transmitting knowledge and technology to other parts of the country. Such areas to continue preferential policies.
 - Energy resources and transport to be developed to ease shortages. Heavy users of energy and transport to be closed or relocated in Central Region.
 - Agriculture and rural production to be expanded and linked more to urban and industrial demands.
 - Service sector to be expanded, including financial services and the setting-up of markets and trading centres to encourage circulation of manufacturers and farm produce, and rural inputs, imports and exports.
 - Preferential treatment for export industries, and promotion of increased tourism.
-

CENTRAL

- Speed-up of coal and electricity generating, non-ferrous metals and phosphate mining, and building-materials industries, using increased government investment.
 - Cities and areas which are more developed will have greater development of hi-tech industry, both existing and new.
 - Vigorous development of agriculture to raise output of grain and cash crops.
 - Accelerated development in coal and electricity and oil, and increased capacity for steel, using government and foreign investment. Also more transport links to coast.
 - More rapid introduction of new technology in existing industry.
 - Setting-up of 'commodity production bases' for grain, soy bean, oil-bearing seed crops and sugar-yielding crops.
 - Vigorous development of forestry, animal husbandry and animal products.
 - Development of the middle reaches of the Changjiang (Yangzi) river to help stimulate growth in the Western Region. (It is not specific whether this means the Three Gorges hydro-electric project.)
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WESTERN

- Development of farming, forestry, animal husbandry and transport.
 - Increased exploitation of minerals and energy supplies on a selective basis.
 - Where economic and technical level is relatively high, technological up-dating to be undertaken, especially using co-operation with Coastal and Central Regions.
 - Land for grain production to be protected, to raise yields and reduce imports from other regions.
 - Faster development of grasslands and pastoralism, but with environmental protection.
 - Improved rail links with the Central and Coastal Regions.
 - Transfer of defence industries to civilian production.
 - Open up mineral and energy sources in the higher reaches of both Huanghe (Yellow) and Changjiang (Yangzi) rivers.
 - Development of the Sichuan-Yunnan-Guizhou border area in energy and semi-finished products.
 - Develop the Urumqi-Karamai area as an industrial centre in Xinjiang.
 - Faster construction of frontier market towns, and expanded foreign trade across borders in west.
 - Preferential treatment for the west in development of education, transport, mining and energy.
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Source: adapted from 'The Seventh Five-Year Plan of the People's Republic of China for Economic and Social Development (1986-1990)', *Beijing Review* 29, 17: 28 April 1986.

the damaging effects of the process. Let us look at some of the implications of decentralisation at different levels of the hierarchy.

Enterprises: With more autonomy granted to individual state-owned enterprises under the urban reforms, which were mainly introduced after 1984, industry has become more 'footloose'. And whereas before the emphasis was on manufacturing, other activities in commerce and the tertiary sector have been experiencing massive growth. Enterprises and local authorities now retain more investment funds, and are thus able to reinvest in other locations, and in sectors unrelated to their previous activities. Before, most funds were channeled through central authorities and had to be used within the enterprise.

This has led to cases of investment in places far away from the originating enterprise (in a few instances even abroad). Some projects have earned criticism from 'old-guard' communists: factories have been known to use capital to build hotels instead of replacing their old machinery, attracted by the higher expected profits. In similar fashion, township and city governments have used funds under their control to invest in the service sector and other activities, sometimes in other locations. Questions of ownership and control have become very muddled. A crucial part of this change is a completely new attitude to how the state directs investment funds under its control. Instead of receiving all 'profits' from state-owned enterprises, it now charges taxes (which are lower, and enable the enterprises to retain more of their 'profits'). These are then recycled through the banking system, instead of by central allocation of investment funds. The banks are expected to supervise loans, and the state to manipulate this new credit system by means of indirect controls like the rate of interest.

Unfortunately, the banks have little experience in the administration of lending; factories have borrowed to pay workers bonuses, or for projects whose merits or viability the bank is unable to judge. Once such experience has built up, though, in spatial terms this shift in funding is likely to favour enterprises in areas which have a higher certainty of success and repayment. This is likely to reinforce the dominance of the Coastal region.

Lower-level local authorities: One of the boom areas of industrial and commercial development during the reforms has been in small and medium scale enterprises. These have been initiated at the level of county, township and smaller cities, often by the local government alone or in collaboration with private entrepreneurs. Though technically called collectives, these businesses are often under the control of individuals, and it is frequently local CPC leaders who have used their power to get in on the act (of decentralisation) early.

It is such locally initiated industry and commerce which has accounted for a large porportion of the rapid economic growth of the reform period. But such development has also contributed to the 'overheating' and inflation problems of the economy, because of difficulties in constraining levels of investment and ability to bid up prices

for raw materials and components, as well as the demand for construction materials used to build them.

There is a significant regional aspect too: this industrial and commercial growth is happening above all in parts of some coastal provinces. Several factors contribute to this 'bias'. Such areas may enjoy sub-contracting relations with existing nearby large-city industries; the purchasing power of the population is higher so new products can sell; in some cases, foreign capital or investment from overseas Chinese back in their home area is significant; and surplus peasant labour in rich agricultural areas can be employed using rural-generated capital. This is evident in parts of peninsular Shandong. In one county town, where party leaders have set up a range of new industries, two thousand out-of-towners are employed and accommodated in dormitories.

The example of south Jiangsu is also very significant. Guangdong province demonstrates the most rapid growth of this type involving foreign funds. But the leader overall has been Zhejiang, like Jiangsu a province which abuts Shanghai. Even in the earlier years of the reforms, Zhejiang saw much more rapid growth in the collective than in the state-run sector, so that by 1985 they were producing far more in the collectives, way ahead of other provinces.

Provinces: The central planning system was based largely on Beijing's control of enterprises and agriculture through the provinces and even lower layers of local government; in effect there was a 'dual-control' system. Provinces have therefore been a key spatial as well as political unit in the implementation of state economic policy. The economic reforms have shifted this role considerably, weakening the planning function of provinces as agents of the centre.

The intention of the urban reforms was partly to reduce the rigidity of the planning process, which treated provinces as more or less sealed boxes acting as local components of the plan. Whereas before there was little chance for co-operation between enterprises on different sides of a provincial border, they were now permitted to find their own suppliers of raw material and components, and to sell their own output. This should increase efficiency by encouraging spatial concentration and increased competition. In some respects this has worked, and where enterprises have been able to escape the former plan constraints the province has become less significant as an economic unit.

But in other ways, provinces have seized on their greater autonomy to intervene in new forms of activity, and to in effect build up their own power in other ways. These include using protectionist measures to benefit enterprises under their control. Thus the more market-oriented intention of the last decade of reforms has been subverted by decentralisation. New problems have been unleashed which alter the economic relations between provinces. The result runs counter to the intended increase in trade and investment across provincial borders. For instance, leaders of some provinces have taken the opportunity to develop industries to produce goods locally which before they

had to 'import' from other provinces. To protect them from the rivalry of the previous suppliers, tariff barriers have been put up to keep others' goods out.

A further twist to this is that these new 'infant industries' may use local raw material supplies, which are then denied to traditional users who might well be more 'efficient' producers. This situation has arisen in a number of inland provinces, creating conflict with the normal producers in the Coastal Region. Thus attempts to increase the 'value-added' produced within their boundaries, rather than act as mere raw material suppliers to others who gain those income benefits, are a constraint the intended role of the coast. An example is Gansu province in the west, an important wool producer which previously supplied this raw material to long-established carpet factories on the coast. Now it has become second largest producer of carpets in the country. The desire of the government to promote regional specialisation is neatly subverted.

Such developments have led to charges that provincial leaders are acting like 'economic warlords', a term which recalls the collapse of China in the 1920s and 1930s into separate mini-states ruled by local warlords. There are numerous examples: one industry which is particularly significant is silk textiles. Because most of the output is exported, whoever controls this can earn foreign exchange and use it (or abuse it) to purchase imports, or sell it above the official rate in China.

In Shanghai, normally the main processing city for silk goods, the industry had almost shut down in 1988. It was being starved of raw silk because producing areas were keeping most of it for their own new factories, which increased their wealth and enabled them to earn foreign exchange. So determined were some provincial authorities to ensure supplies for their own factories that they set up armed border guards to prevent silk leaving.

By the late 1980s, the central government was trying to prevent this erosion of its control over foreign exchange, and introduced a tax on exported silk goods at 100 per cent. The intention was to force others to export through the state monopoly corporation, which then receives a complete rebate on this tax. This competition for raw materials has affected other industries too, leading to inter-provincial conflict and regional rivalries of a new type.

To try and control the local economy, provinces are overstepping their legal authority, and the centre seems powerless itself to do much about it. In some ways central government embarrassment at what has been going on between provinces is at odds with their desire to promote a market economy. The problem it had not reckoned with is that markets encourage participants to compete by using any initial advantage they have, and this is being used for all it is worth. A situation is arising which may be worse than that under the central plans which market forces were meant to replace: a combination of the worst aspects of both the market together with remnants of central regulation.

Beggar-thy-neighbour attitudes are even more apparent in the actions of government and entrepreneurs in Guangdong province, which is part of the Coastal region (Hong Kong is adjacent to it). The inland provinces have the excuse that they are trying to retain some control of income-earning opportunities in the face of the coast's unfair advantages. Guangdong, the epitome of coastal 'success', has no such defence. Its business practices have created conflict with neighbouring provinces and considerable resentment in Beijing and among other Chinese.

Inland provinces have argued that they should share in some of the experimental privileges enjoyed by Guangdong and the coast, since the Coastal region is not simply earning through new business, but is distorting existing production patterns and weakening the inland provinces. Now Hunan province, for example, is being allowed to retain more of the foreign exchange it earns.

The most serious grievances levelled at Guangdong include those arising from its practice of buying raw materials or even finished goods from neighbouring provinces with Chinese currency (Renminbi), then selling them abroad so that the foreign currency earned never gets to the inland provinces. Because the foreign exchange can be sold to those who will give more Yuan than the official rate, Guangdong entrepreneurs can then afford to buy from their suppliers at higher rates, so cornering the market (and boosting inflation).

This has provoked the authorities in neighbouring inland Guangxi, Hunan, Jiangxi and even coastal Fujian to demand payments in foreign exchange, or to set up border controls on traffic in certain goods. Some inland provinces have tried to get in on the act by setting up businesses in Guangzhou (Canton) or the Special Economic Zones (SEZ), all of which are on Guangdong's coast.

Beijing's attempts to institute controls over some of the more flagrant violations have met with stiff resistance from local officials and businesses. In the late 1980s, it appears that the central authorities made a real effort to implement controls over some of the more blatant private and official dealings in Guangdong. This included the cancelling of over-budget investments and even some joint ventures with foreign partners. But some leaders are adamant that their province should enjoy the fruits of the 'experimental' open status which had supposedly been granted to increase foreign investment and improve technology. They are aided by the fact that when the central government attempts to institute proper regulation, foreign business confidence is reduced; it is difficult to control economic growth without constricting supplies of outside capital and technology.

Pressures for new province-level authorities

There have been at least two attempts to redraw province boundaries in the last five years, and this may be indicative of the new advantage in controlling a province. One was for the creation of a new province centred on the proposed huge Sanxia (Three Gorges) hydro-electric power (HEP) dam and flood control project at the Yangzi gorges. This has been shelved, and it is still uncertain whether the dam will go ahead

because of cost and environmental protests. The other proposal was to separate the south coast island of Hainan from its parent Guangdong province, creating a new province; this was agreed in 1988.

The Hainan case is remarkable, because it will restore powers of trade and business to the island's authorities only a few years after a major scandal affecting it. In 1985 many party leaders on Hainan were forced to resign after the misuse of their autonomous trade powers in importing large numbers of cars and motorbikes from Japan which were then resold on the mainland in conflict with import controls on such luxury items.

The State Economic Commission's action in allowing larger cities (initially nine) in effect to become provincial-level authorities at least as far as their economic responsibilities has further increased the number of province-level units. This indicates how decentralisation has created significant advantages for provincial officials. They are able to reduce their role as agents in the regulatory functions of the centre, and increase their own control over existing local resources and the growth of new ones. Local power means being able to retain more control over the increased wealth and foreign exchange generated (some of which may find its way into personal benefits).

Impact of the Open Door policy on location of economic activity

One of the earliest 'reforms' of the post-Mao period was the 'Open Door' policy which greatly expanded China's economic connections with the rest of the world. From the low levels of the mid-1970s, trade increased three times by the early 1980s. More significant than trade was the acceptance of foreign investment, and borrowing of capital from foreign governments and banks. To the Maoists such policies were a sign of capitalism and subjection of the country to imperialism. Now China is a member of the World Bank and International Monetary Fund (IMF), and even invests money abroad itself, for instance in an iron ore mine in Australia.

The spatial impact of the new trade and investment opportunities has reinforced the growth of the Coast. The government's faith in the region's comparative advantage has also been backed with a number of policies. Of these the best known is the Special Economic Zones (SEZ), set up at four places in south China in 1980. In addition, and more significant, are the fourteen port cities and one area (Hainan island) which were later granted particular rights aimed at encouraging foreign investment. The entire island of Hainan was then also made an SEZ in 1988.

The central government has itself committed disproportionately high levels of capital to the improvement of transport and dock facilities in all these places, partly to encourage investment but also to aid in shipping China's own exports from the coast and inland.

The rapid growth of the Coastal region, and the concentration in it of both enterprises and population with higher spending power, has attracted to it higher levels of imports of consumer and producer goods. In turn, the new emphasis of the urban reforms on

light industry has been concentrated on the coast, and the central government is intent on raising the export capacity too, in order to help pay for the country's imports. In the second half of the 1980s, the import bill was far in excess of the value of China's exports: there arose a serious balance of payments problem.

There have been hopes that oil would be found offshore at several sites on the east and south coasts, but so far there has been little success. Oil is already exported in large amounts from the northeast to help pay for technology imports, and new supplies would have helped reduce domestic energy shortages and also increased exports. The exploration efforts have in the meantime further boosted the Coastal region's growth.

Emergence of the Coastal region as dominant

A whole series of factors then seem to coalesce to create coastal preeminence, and although some of its growth may be the product of comparative advantage, it is also a result of government policy preferences, and the way in which local authorities have used their lead over other provinces. It is difficult to separate out the causes of the relative success of the coast and decide how much to attribute to inherent locational advantage, to higher productivity, to greater enterprise spirit, and to government policy (e.g. the promotion of special economic zones and open ports, or the improvement of infrastructure).

What is clear is that it is achieving investment which is higher than the other macro-regions in relation to its share of population (see Table 1). Taking account of all sources of capital, the investment in fixed assets in the Coastal region in 1985 was 52.7 per cent of the national total, while the population represents only 41.3 per cent.

The economic power of some coastal provinces to control supplies of raw materials has provoked conflict with inland authorities, as we have already seen. This seems to have prompted prominent government leaders to modify the three-fold 'division of labour' of the macro-regions (see Table 2). In the late 1980s, Party Secretary Zhao Ziyang and others, while still promoting the Coastal region rapid growth policy, were saying that the coast had to look for alternative supplies of raw materials even from abroad so as to reduce the constraints that its demand has put on development.

He added that those industries using large quantities of raw materials or energy should be cut back, and stress put on the growth of lighter industry. The products should especially be aimed at export markets, so as to reduce the impact of selling goods inland in competition with other producers there. Clearly, a regional division of labour is producing its own political price, and the economic objectives of increased efficiency are not to be achieved without the emergence of social and political conflicts which themselves are unmeasurable but real costs of such policies.

The East-West divide

The conflicts with the Coastal region experienced by the inland provinces are most intensely felt by those in the Western region. The issues are made more complex by the fact that this region is inhabited by many people of non-Han 'minority

nationalities', who have always been at the thin-end of economic policies, which are more geared to benefit the dominant Han people. This has led to the concept of the 'East-West' divide in China, which is in some ways comparable with the arguments about a North-South divide in Britain. Despite the fact that growth rates in the west are quite respectable, leaders and some people in the west feel that their region is being left behind, or even deliberately neglected, under state policies which so clearly promote the coast (see Table 3 for a comparison of regional growth rates).

Government assurances that the Western region will become the major growth zone of the next century are little consolation for people who have to endure current official policy of merely developing farming and animal husbandry, even if some (including sections of minority peoples) in the Western region have experienced increased incomes under the new commercial policies (see Figure 2). They resent the limited role assigned to them of supplying food, raw materials and energy, mainly for 'export' (on improved transport links) to the rest of the country. The then CPC leader Zhao Ziyang's explanations that the thrust to develop the coast first is intended to provide China with the wealth to develop the whole of the country is probably little consolation.

But the grievances arise not so much from national minority groups such as the Uighurs, Tibetans or Mongolians, but from Han Chinese settled in large numbers in recent decades in the west. They are there often as a result of some compulsion, and resent being excluded from the benefits going to provinces in the east from which they may have been sent. So the east-west divide is a point of conflict for the west's leaders, who want to retain the central subsidies they are accustomed to, and people (mostly Han) who resent the place and function they have been given in the new policies.

The minority peoples have other reasons to be discontented with central government, and in some respects their experience of being ruled by outsiders has been aggravated under the reform policies. Indeed many of the non-Han people (as seen in protests in Tibet and Xinjiang) would prefer the Han to withdraw and leave them with greater independence from what they experience as colonial control.

The ethnic conflict arises largely out of the minorities feeling that the Han want to use their areas mainly for the benefit of the Han economy rather than theirs, which are in most cases based on different resources and systems of production. The CPC's commitment to equal rights falls far short in minority people's experience. Without their really having any say, they see their pasture land taken over by Han settlers who cultivate crops for Han people, mines opened to provide the east with raw materials, territory used as a dumping ground for prison labour camps, and dangerous nuclear tests (in Xinjiang).

So although some of the indigenous people have benefitted from the greater commercialisation of their areas under the impact of the economic reforms, much of the thrust of the new policies is seen as intensifying Han exploitation of their areas, rather than as sympathetic to needs which they are able to define for themselves.

Not all of the Western region is affected by this ethnic divide: the most populous provinces in it, Sichuan, Shaanxi and Guizhou are predominantly Han. They seem to have been included in the Western region in order to help promote their neighbours' growth. They were also significant recipients of investment in the sanxian policy, and this industrial and scientific base is intended to provide a lot of ready-made facilities which just need to be 'civilianised'. This is not very easy, given their remote locations with long routes to markets in which they have to compete with much better placed enterprises. Being expected to compete on this unfair basis is another element of the conflict creating the East-West divide, to which the central government has said it will pay more attention.

Policies for the West and minorities

Whether this attention is much more than lip-service remains in question, since the central government seems to have neither the will nor the ability to hold back the coast. However, it has been necessary to go some way to recognising the East-West gap, and formulate policies for dealing with it. The 'East-West dialogue' is an example: an attempt from the early 1980s to encourage enterprises from the east to participate in joint ventures or direct investment in the west. Examples of such projects in Xinjiang include fruit canning and other food processing, a truck assembly plant, and a textile factory.

The policy's success has been very limited, with only a small increase in value of output from such ventures. There was a more concerted effort to promote a large number of projects in Tibet, the least populous of all the Western regions' provincial-level authorities, in the mid-1980s. These were mostly in the service sector and infrastructure, and were criticised in Tibet because many of the forty-three projects seemed to be aimed mainly at increasing the capacity for tourism, the dollar earnings from which would benefit the central government.

By the late 1980s, other ideas were being promoted. These included increasing minority area trade contacts with the nations bordering them, so that they 'look in two directions simultaneously', thus 'converting minority regions from remote places far from domestic markets into frontier areas adjacent to an international market.' (Beijing Review 27 March 1989). Cross-border contact is unlikely to produce much in the way of growth, but in morale terms is probably quite important, especially in areas where people are ethnically the same on both sides of the border and want improved contact. The most benefit from this is likely to go to Xinjiang after the opening of the new rail link from Urumqi to the Soviet Union and thence on to Europe.

Another proposal is to expand the capacity of the minority regions to exploit mineral and other resources, using 'continued grants of intellectual, material and financial assistance from the state'. This reference to 'continued grants' is a diplomatic response to the anger expressed by leaders of western provincial-level authorities; in 1987 the state announced that central subsidies were going to be phased out, leaving deficit provinces (like most of those in the west) to cover their budgets in other ways.

This obligation comes at a time when many of the west's skilled people are trying to leave for the east, reducing the development capacity of the region. In general, Han people do not like to live in national minority areas, and since the 1950s, government posts have attracted salary bonuses to encourage people to go and work there. But with greater freedom of movement for people in the reform period, many skilled workers, scientists and other 'intellectual resources' have been leaving the west in search of a better life further east.

The unimpeded impact of the reforms on the west is likely to further antagonise most of the minority peoples, who see the new policies as designed for the benefit of others. However, leaders in the Western region are in an awkward situation; to remain leaders they have to support the reforms (even if they are from the ethnic groups), yet at the same time be heard to complain of the reforms' unfairness and harmful impact on minority nationalities. The sort of protest movements seen in Tibet and Xinjiang in recent years may well continue, as signs that the local governments are inadequately expressing the opposition of the minorities to the impact of the Han reforms.

Economic crisis and the reforms

Implicit in the attitude of letting some areas get rich 'first' is an official faith in the 'trickle-down' theory of economic development, in which areas growing first and fastest stimulate poorer areas nearby through their increased purchases of goods and raw materials, hiring of labour, and eventual cross-investment. In my view, it is largely discredited in the eyes of many people in less developed countries. In practice, it can allow rapid economic growth - as has indeed been happening in China in the last decade - but is much less effective in the promotion of medium and long-term income distribution and welfare provision. Some of the most serious economic and political problems facing the leadership in the late 1980s relate precisely to this inadequacy. 'Overheating' of the economy and inflation at levels between 20 and 30 per cent produced widespread disenchantment with the reforms, and led to a drop in real income for many urban inhabitants.

Another spatial aspect of the regional divergence is the extra strain it puts on already overloaded transport and energy sectors. Since the 1950s there has been a serious shortfall in transport and energy provision for the economy and domestic use. There is still no effective plan to increase provision of them at a rate which even catches up with the pre-existing gap, let alone match the economy's growth. Interestingly, part of the 'comparative advantage' proposals for the Central Region is to improve the use of its energy resources, and to promote the movement of energy-hungry enterprises from the coast to the centre. This would help reduce demands on the transport system, much of which is used to shift coal to places where electricity can be generated without long transmission lines.

Regional policy in the 1980s

Regional policy has emerged during the 1980s in parallel with the reforms, and is largely concerned with improving the production conditions of the Coastal region. Since this region is already in advance of the rest, living conditions of its people are likely to improve further. As well as the higher levels of investment going to the coast, government policy favours this region in the concessions granted for foreign capital. The coast has the five SEZs, as well as the fourteen coastal cities and other coastal 'open zones' with similar 'Open Door' freedoms and more infrastructure spending from the government.

The idea of regional policy is mainly to strengthen the economy of the already better-off coastal provinces. By contrast, in Western countries it has generally been the objective of regional aid to improve living standards in worse-off regions by encouraging more economic activity there, trying to achieve a more equitable spatial distribution of employment levels, income, and welfare facilities.

China's leaders argue instead that a stronger, economically developed and more technically advanced Coastal region will provide a better basis for future assistance to the poorer parts of the country. The coincidence here with Mao's view in his 1956 speech ('On the Ten Major Relationships') shows how difficult it is to unravel politics and economic policy in China, given the usual simplistic presentation by whichever faction is in power of their total opposition to whoever went before them.

But apart from the major support for the coast as a macro-region, policy in the 1980s has also promoted some new types of smaller regions, some of which encourage not only inter-province linkages, but also connections between the three macro-regions.

Regions in the 7th Five-Year Plan

One of the most interesting aspects of the 7th FYP (1986-90) for geographers is the stress it puts on regional differences, and the proposals in it for different sorts of regional policies. In fact, new types of policy region (i.e. regions designed to achieve certain objectives) seem the vogue in China. Apart from those in the 7th Plan itself, a confusing welter of new regions have been proposed (but not all implemented) by different government institutions and other bodies. They often seem at cross-purposes, and pull in conflicting directions.

These new types of region are one of the most significant agents in the dissolving of traditions of provincial power-broking. They are aimed at improving efficiency by encouraging enterprises and local authorities to deal directly across province boundaries. In the old rigid planning system, managers had to deal up the bureaucratic hierarchy to the province authorities and down again to communicate with their neighbouring plants. Production connections between provinces were discouraged under this system, since the provinces were in effect closed systems which dealt with Beijing as their superior but not with equal-level neighbours.

In marked contrast, the new regions which were sanctioned by the 7th FYP (some were already in operation) aimed at reducing the significance of provinces as economic managers. Instead they are intended to promote economic efficiency by encouraging links between enterprises no matter which province they are in. The emphasis is on promoting horizontal linkages, against the 'verticalism' of central planning. Some of the largest new regions have been backed-up officially by high-level support, including the appointment of government ministers responsible for them. At this scale, there are different types of region aimed at distinct problems or objectives. For instance, in an attempt to improve energy production and use there is the Shanxi Energy Base region, centred on that province but linked also to parts of Inner Mongolia, Hebei and Shaanxi. (It falls in the Central region, which is meant to focus on energy production anyway.) There are three other large 'horizontal' regions on this sort of scale. The Shanghai Economic Zone, and the Northeastern Economic Zone aim to improve links between adjacent provinces which already have large amounts of industry. Both include provinces from the Coastal and Central Regions. The former incorporates Jiangsu, Zhejiang, Fujian, Anhui and Jiangxi, with its headquarters in Shanghai. The Northeastern includes Liaoning, Jilin and Heilongjiang.

The remaining one connects three Western provinces, Sichuan, Yunnan and Guizhou and Guangxi Autonomous Region, which is part of the Coastal region despite being one of the country's poorest provinces. It appears to have the transformation of the sanxian production capacity as its focus (see Figure 4).

These large regions are the first level of a hierarchy of the new policy regions, which are described as 'networks of economic zones'. This language itself indicates how far the thinking has gone away from the notion of provinces acting as the state's agents in a strict vertical planning system. In the next level are found networks 'along vital communication lines'. So far two seem to have been mentioned, based on the Changjiang (Yangzi) river and on the crucial rail route that links the east coast with Urumqi in the far west Xinjiang Autonomous Region (soon to connect China through the USSR with Europe). These curious 'linear' regions (see Figure 5), whose organisation has not been clearly spelled out, cross all three macro-regions. Really they are not regions as such, but rather a co-ordinating conference of the relevant city authorities.

The third level of new region types link together groups of cities into smaller regions, apparently to create logical cross-border connections where there are industrialized areas straddling provincial boundaries. Such groupings seem to have been springing up partly as a result of provincial initiatives, in recognition of the mutual benefits to be gained. There are examples within the northeast, in a grouping around Shenyang, and in the grouping of Tianjin and cities in Liaoning, Hebei, and Shandong around the 'Bohai rim' (the coast of the Gulf of Bohai). It is especially this type of region that seems to be at cross-purposes with the others. Given that these smaller ones seem to contain much of the relevant productive activity, higher-level efforts would have a rather contradictory impact on them.

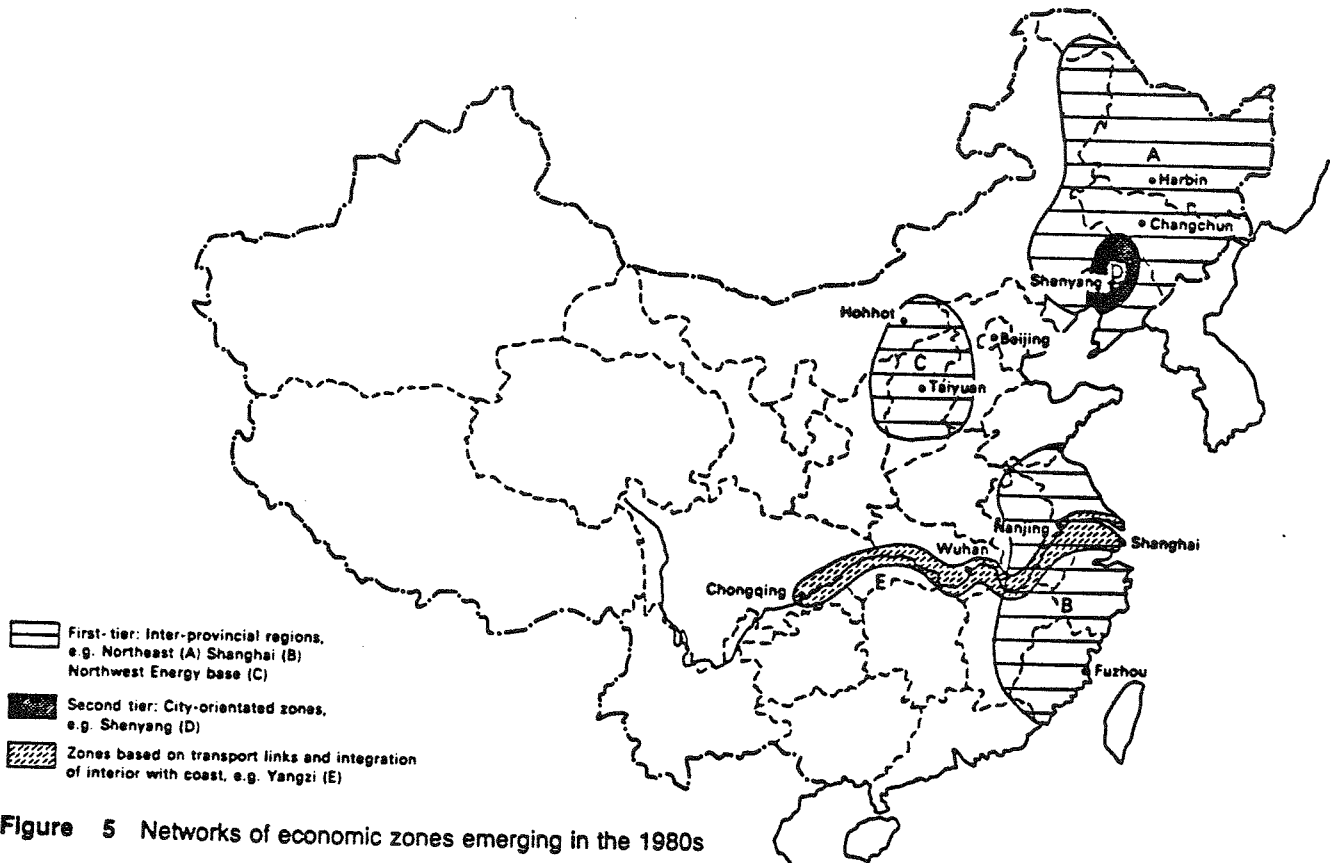


Figure 5 Networks of economic zones emerging in the 1980s

Prospects for the coming years

The most significant spatial impact of the economic reforms is in the reinforcement of the strength of the Coastal region, and the stirring of inter-regional rivalries and conflicts arising from the resultant 'east-west gap'. This major regional advance for the coast is a product of both the working of the economic reforms (which promote the comparative advantage of that region) and deliberate regional policy. It is reinforced by the powers which provinces have taken for themselves in the decentralization of planning, and by the formation of the new types of region which aim to cut across provinces but which are also most numerous in the Coastal region.

In short, there is unlikely to be any reduction in the existing strength of the coast and its potential for rapid growth, unless the conflicts arising lead to a significant shift in official policies. Even such a shift is of doubtful value, as the central government may be too weak to rein-in the economically strong coastal provincial governments and other business interests. Aspects of regional policy designed to reduce spatial inequality relatively weak, though there is some evidence of growing concern about increasing spatial (including regional) inequality. There are some aid provisions for poor areas, and there is greater willingness to reveal the level of rural poverty in mountainous and hilly areas. Paradoxically such areas of poverty occur even within coast provinces, reminding us of how crude are the macro-regions in characterising their internal coherence.

The most crucial determinants of poverty in China are poor farming conditions (of soil, slopes, access to water) and the consequent inability to produce surplus for sale on the market, or of poor transport access to markets even when a surplus can be produced. These are conditions which are largely a factor of economic and regional policy, and it is going to be extremely expensive to overcome them. It is worth noting that under the reforms the number of counties eligible for special poverty aid has doubled, though the fund for it has not been increased. Polarisation between richer and poor areas is likely to continue and become more acute, producing greater social stresses.

One way in which people are responding to the inequalities of earning opportunities is by migrating, sometimes seasonally, in response to agricultural work, but increasingly in search of permanent employment. This process is now possible, whereas during the Maoist period place of residence was much more strictly controlled. Migrants can buy food on the open market rather than use ration cards which are given to urban dwellers through their place of work. Though a market in labour has yet to be officially sanctioned, it is developing by default and is not being strictly controlled. This is likely to continue, as central and local controls on movement are extremely difficult to re-impose without harmful effects on other aspects of the economic reforms. Lack of data makes it difficult to assess the patterns, but it is likely that movement correlates strongly with economic opportunity, so that growth areas in coastal provinces are major recipients. It has been reported in the People's Daily for instance, that there are 2.5 million people in Guangdong from neighbouring provinces either in or seeking work. After the New Year festival in 1989, in the capital Guangzhou (Canton) alone there were 30,000 rural labourers waiting in a main square for temporary jobs. By comparison, the size of the workforce in the province in 1985 was around thirty million.

While work in the towns and cities is far from guaranteed under such conditions, it is unlikely that agriculture will ever again be able to absorb more people. Even if work is not easily available, the mobility of labour under the new conditions is likely to continue, with increasing pressures of urbanisation and residence in towns and cities. Stronger regionalisation of economic growth and the emergence of patterns of smaller towns in the periphery of larger cities along the model of south Jiangsu seems likely.

China seems set on a course which is going to produce increased regional differences and heightened political awareness of the problems such spatial inequalities involve. In the pursuit of economic growth rather than a broader, more equally shared development, Deng Xiaoping's model aimed at producing greater wealth and welfare for all in the long term even if it means greater inequality in the meantime. His objective is shared by many but not all of the central leadership, and is increasingly opposed by significant sections of the people.

But the forces unleashed by the commercialisation of socialism have created powerful regional and provincial interest groups in better-off areas which desire to maintain the decentralized and market-oriented policies. With the centre much less able to reinstitute controls, there is likely to be a growth in 'separatist' aspirations by the well-off, and growing tension in the less prosperous areas. Some poor hill and mountain areas have already suffered food shortages, and because aid is inadequate and political will insufficient, they are potentially victims of the new spatial patterning of Chinese society, voiceless and superfluous to central or local needs.

Part 2

The impact of China's 1989 crisis on regional development and spatial change

The previous part was written before the events of May and June 1989, and the callous and calculated repression of those demonstrating in Beijing and other cities. After such events, it might seem rather insignificant or irrelevant to bother with a survey of the geographical connotations of Deng Xiaoping's leadership. Yet political and economic affairs, including the political crisis of 1989, and the economic problems which fed it, are inseparable from geographical issues. Spatial differences both affected the way the Dengist reforms of the 1980s operated, and those reforms themselves had their own impact on the country's geography, on the regional contrasts, the urban-rural differences, and the localism emerging from greater economic autonomy for lower-level administrations. In other words, the 1989 crisis was partly a result of the distinct ways the reforms took hold in different sorts of geographical space.

When people demonstrated for greater political openness and against Party corruption, their actions (and those of the leadership which repressed them) were in some ways related to the political and economic use of space and territory. Income levels, and the right or ability to own resources (and have personal control over economic opportunities), varied considerably between city and countryside. Urban-rural differences seem to have been significant in the tensions of the 1980s. There have also been conflicts over the advantages given to some regions rather than others, especially the priority given to the Coastal Region compared with the role assigned to the West. Among the minority nationalities (many of whom live in areas included in the Western Region), many people regard the economic policies of the 1980s as being calculated to produce the maximum extraction of resources from their areas. Severe penalties have been imposed on them if demands for greater autonomy have been made; following the anti-Chinese protests of December 1988 and the use of armed force, parts of Tibet were put under martial law in March 1989, two months before Beijing.

Even at the local level, policies like the Special Economic Zones (SEZ) have national political significance and economic spin-offs beyond the small size of territory they involve. The whole issue of regional specialization and comparative advantage (of which the SEZ and coastal priority were part) created new tensions in Chinese society, as did the rural policies which gave rise to family farms and village and small-town entrepreneurs. Those rural policies have also produced a section of the population which is free-floating, much of which has found its way to insecure, marginal and sometimes illicit urban existence. Some people from this group had a direct role in the protests.

In all, the reform policies of the 1980s made new and different uses of territory, resources and the location-specific characteristics of different regions and places, and gave rise to new tensions, as well as new opportunities. The crisis of 1989, and the subsequent reversion to centralized party control of the economy, is a crisis experienced in and expressed through China's geography as an inherent part of the economic and political conflicts; while hardly uppermost in peoples' minds, geography had its part.

Part 2 traces the trends and policies which seem to be emerging under the new leadership which established control during the events of May and June 1989, and which has since consolidated its control of Party and government. Zhao Ziyang (who was Party General Secretary at the time of the events) appears to be in custody, and his position has been taken by Jiang Zemin. Although Deng Xiaoping's position has not been challenged (he was in any case 'paramount leader' without any formal government position), it is clear that many of his reform policies are now in abeyance, subordinated by the now dominant 'conservatives' to greater party control over the economy. The new policies which have followed the June events indicate (although they are still not clear or comprehensive as this is written) some significant shifts in geographical priorities.

Recentralising the economy and slowing growth

What is clear is that the 1989 protests, whatever their virtues and faults, have put into power a group of Party 'conservatives' who believe that they have the answer to both the 'reactionary' protest movement (which they consider was pro-capitalist and influenced by Western decadence), and to the complaints of the protestors about corruption and the distortions of the Party's behaviour brought about by commercialization.

In other words, The 'conservatives' have pushed the debate about political reform off the stage, and replaced it: the issue has become how to run the economy. The economic complaints of the protestors, seen by the conservative as being in some ways quite valid, are to be resolved by re-centralizing the economy to remove corruption and speculation. Arguments about democracy are side-stepped and deemed redundant, because they pose a challenge to the role of the CPC in fulfilling its duty to clean up the revolution.

What follows is an assessment of the leadership's policy responses which relate to geographical issues. It is necessarily partial and based mainly on news media.¹ It should be kept in mind that there is also a degree of uncertainty within the leadership as to what should be done, and unwillingness by some of them to undo all of the reforms. The new propaganda stress is on maintaining the reforms (including the open door to foreign investment) and presenting them as acceptable socialist policies; at times it is as if they are trying to persuade themselves as much as outsiders.

Centralization and planning versus local autonomy

Four months after the June massacres Premier Li Peng made an important speech in which he argued that the main causes of dissent were corruption, unfair income distribution, and inflation.² The medicine which his leadership prescribed was a deepening of the restrictions on credit introduced to dampen down the economy in Autumn 1988, and a reintroduction of state control of key industries, with a return to a central planning system similar to that in operation up to 1978.

In 1989 there were already signs that the credit squeeze was bringing down inflation in 1989. It was implemented by the imposition of strict limits on borrowing and a ban on lending by the hitherto permissive Bank of Agriculture. The latter measure in particular has had a drastic impact on the many millions of rural enterprises (manufacturing and services) which have sprung up in the last decade. These township and village enterprises (TVEs) have been reduced in number by about three million (from 18 million) in the last year or so, making an estimated 8 to 9 million rural factory employees redundant. Although TVEs are still likely to perform well (with economic growth at 15 per cent in 1989), the rate is considerably down from the average 33 per cent growth of the previous years.³

This trade-off between jobs and inflation has also affected the state sector, with a decline in total employment of 200,000 in October 1989 alone. The more numerous urban 'collective' enterprises (which employ nearly 35 million people) shed more than half a million employees.⁴ However, in the re-planned economy the government is likely to give preference to these types of enterprise in allocations of credit and raw materials. Some of the new leaders would say that the job losses are part of the justification for recentralising the economy. They argue that TVEs have undermined the state and urban sector by drawing raw materials and energy away from them (by bidding up prices and through corruption), thus boosting inflation as well.

The restoration of a centralised planning system (which will involve major industrial and agricultural inputs and products, including coal, iron and steel, non-ferrous metals, cotton and grain) is intended to remove the dual pricing system. This arose with the combination of fixed prices in the state sector and competition (and hence market pricing - often for identical goods) in the commercial sector. With it comes a recentralisation of the allocation of investment funds, restrictions on local authorities' and enterprises' use of foreign exchange, and reduced autonomy for both state-owned enterprises and provincial/lower-level governments.

Investments in weak economic sectors?

There are other crucial components of the new leadership's policies which are directed at structural weaknesses of the economy which were deepened by the reforms. In particular, the new government says it will increase investment in the very inadequate transport and energy sectors, and in agriculture. Transport and energy, despite many statements during the 1980s that they were to be rapidly expanded, remained

underfunded as before. This seems to have been a result of the increased autonomy of enterprises and local government bodies, none of which had a commercial incentive to invest in these areas while there were more profitable things on which to focus.

Agriculture has had mixed fortunes under the responsibility system, although rural incomes generally have risen. Production expanded rapidly in the first half of the 1980s, but grain production slumped to 379 million tons in 1985, and has since fluctuated wildly, creating enormous difficulties. This has partly been a result of the market system and farmers' profit-seeking. In 1989 it was back up to the 1984 record level of 407 million tons. But more damaging has been the neglect of rural infrastructure, as a result of the reduced role of the collective system. (Already in 1987 a system of compulsory labour contributions was supposedly introduced to deal with the upkeep of irrigation and other infrastructure).⁵

In addition to this, the state now intends to control much more the type of crops grown, and to restrict the transfer of agricultural land to urban and other non-farming purposes (to counter the loss of fertile land, especially in the eastern areas around cities and towns which have expanded rapidly during the reforms). Another big push to higher rates of mechanisation is planned, something which has been held back by the small plots inherent in the rural responsibility system. The agriculture minister has said that more central funding will be made available to promote the changes in direction the government wants. Much of the immediate emphasis is on increasing output (especially of foodgrains and cotton) on large areas of land in environmentally-favoured areas of the east and south.

Certainly the new administration is sensitive to the need to increase agricultural production, particularly grain. Official statements stress the need 'to genuinely implement the policy of taking agriculture as the foundation...and that we must give investment, credit, energy and raw material priority to agriculture.'⁶ But such directions are very similar to many others made in the 1980s, and so it is questionable whether such a policy will actually be implemented. Previous calls for priority to agriculture have found competition in the power of heavy industry ministries and top party officials, who ensure priority of funds for industry. Given the increased role of the CPC in economic decision-making and the party's close ties to the industrial sector, agriculture may still not receive significant state investment.

Problems of local autonomy

It was the increase in the economic autonomy of the provinces which produced one of the more curious anomalies of the reform system. Instead of promoting increased market competition, autonomy made it possible for provinces to set up protectionist barriers to trade. They could then establish or maintain favourable conditions for their own industries, even holding on to raw materials for local use which previously went to state-sector factories elsewhere. Recentralisation is designed to prevent this, and is likely to incur the resistance of some provincial leaders who benefitted from their local control of the economy. But the Beijing leadership is now stressing that the health of the national economy is more important than the self-interest or narrow

focus of local authorities. As an article in China Daily put it: 'Disputes over natural resources are a major source of discord between central and local governments. It should be made clear that natural resources belong to the State and that the State has priority rights over them. Local authorities should never stress their own interests at the expense of the State's.'⁷

Although the provincial-level leaders may share a regret at the passing of this decade of local power, their interests may be too diverse for them to put up a united opposition. An article in the Far Eastern Economic Review suggests that 'provinces with a high concentration of state industry, such as Liaoning and Heilongjiang, welcome the renewed emphasis on public ownership because they have got more raw materials and funds. On the other hand, recentralisation will hurt places such as Jiangsu and Zhejiang, which have more collective and private enterprises.'⁸

Another factor which also contributed to the job losses mentioned earlier is the decline in consumer spending, which has affected provinces which invested more in producing the sort of goods which boomed in output in the 1980s. The slump in spending is partly a result of tighter credit and declining real incomes. But it is also an outcome of the 'inflation effect'. When inflation was high, people bought consumer goods rather than watch their savings lose in value as prices rose. As inflation has declined in 1989, there is less incentive to put earnings into buying goods.

Regionalism and priority areas

From this differential impact of the recentralisation policies, it is possible to begin to put together a revised impression of the likely regional pattern under the new leadership. This is considered in terms of how the fortunes of different provinces and sub-province areas are faring. As will be seen, much of the situation analysed in Part 1 is likely to change. It is helpful to use the division into the three 'macro-regions' (see Figure 2) which were the basis of strategic thinking in the 7th Five-Year Plan (1986-90). Unfortunately, currently there is much less information about the impact of policies on the Central and Western regions; their prospects are inferred as far as is possible after more detailed discussion of the Coast.

Continued priority for the Coastal Region?

In the 1980s the already generally wealthier and more productive provinces of the eastern and southern part of the country was given priority for further rapid development. It was supposed that such a strategy would both promote the growth of the inland regions eventually, and maximise the gains from greater foreign trade and investment (easier to do on the coast).

Since Zhao Ziyang (who was a major proponent of this policy) was removed from office in June 1989, there have been many government statements that the coastal emphasis and the Open Door policy are to remain intact. But it cannot be the same:

foreign investment and some aspects of trade have been upset by the government's repression of the protestors.

Nor does the new leadership seem to want it to be the same. Li Peng's October 1989 speech included mention of the coastal region remaining a priority, but it was not stressed. And it came with a qualification: China welcomed foreign investment, but 'we must meet the overall requirements of the development of the national economy and the rationality of our economic structure.'⁹ Mention of the need for 'rationality' in economic affairs is usually a sign that what is happening currently is not approved of.

At present, policy on the Open Door is something over which there is disagreement in the leadership, and therefore less clarity about what is meant to happen. Regional priority for the coast has been linked very closely to the use of foreign investment and to export processing. But the TVEs of Jiangsu, Zhejiang and Guangdong provinces (which have been at the forefront of both domestically-oriented industrial growth and the export drive) are now suffering from the credit squeeze and recentralisation. So the counter-inflation and planning policies are likely to increase the balance of payments difficulties.

Some recentralisation measures (particularly those relating to foreign investment and trade) have hit even independent-minded Guangdong, especially through restrictions on imports and product quotas. These measures, designed to improve the trade deficit, stopped some joint ventures from operating, including the Peugeot factory in Guangzhou (Canton) which had to close for two months at the end of 1989.

On the other hand, 'coastal' developments which seem to be linked to other priorities may continue to thrive. Firstly, there is no immediate clamp on the Special Economic Zones, and this seems to reveal their continued function as bridges for promoting reunification with Hong Kong, Macau and Taiwan. Secondly, the older state-led, industrial-base coastal cities like Shanghai and Tianjin (like the industrial Northeast) may benefit from the redirection of state investment to their industries and infrastructure under the new planning arrangements.

TVE areas: difficult times ahead?

Looking at Town and Village Enterprises, areas which have greater access to official funds or capital from outside China seem to be managing better than those more prone to the credit squeeze and recentralisation. So the Yangzi delta region, incorporating north Zhejiang and south Jiangsu (the rapid development of which is described in Case Studies 6.1 and 8.1) have been hardest hit. Growth in industrial output in 1989 was less than 3 per cent, compared with more than 20 per cent per annum in the previous four years.¹⁰ By contrast, the rate of decline has been much less in Shanghai's rural hinterland, where many TVEs are linked with state-run or other 'official' factories in the metropolis. In Guangdong, and to some extent Fujian, the existence of investments by Hong Kong and other 'overseas Chinese' has apparently cushioned the recession. There have been closures of TVEs, and as in the lower

Yangzi area enterprises producing consumer goods for domestic consumption have been hard hit by the decline in demand. Yet 1989 growth was still around 15 per cent.¹¹

Guangdong is probably also benefiting from its previous considerably greater autonomy, which is more difficult for the Beijing authorities to reduce for fear of further alienating Hong Kong. In addition, the province's governor is on record as being determined not to let Party interference disturb the running of business.¹² Party dominance over economic issues (even at enterprise levels) is being reintroduced by the Beijing leadership to help in the planned economy, but is seen by many of the reformers (including Deng Xiaoping) as being a major factor in the inefficiency of enterprises in the Maoist era.

Special Economic Zones and Coastal Open Districts

The fortunes of the five Special Economic Zones (SEZ) have so far been a curious amalgam. Their location in relation to Hong Kong, Macau, and Taiwan indicates that part of their function is to help in the process of reunification, as well as economic modernisation. Outsiders' confidence that China's leaders are willing to co-exist with capitalism in the SEZs, eventually leading to a two-system economy in a reunified country, has been shaken badly by the nature of the new post-massacre leadership.

To limit this damage, some leaders seem willing to continue to promote the SEZ system. In January 1989 Jiang Zemin was reported to have 'personally directed the planning and development of the Xiamen Special Economic Zone, [and] told the foreign investors that China's SEZ have excellent prospects and great potentials...'.¹³ Linking himself to the SEZ policy in this way is certainly designed to boost confidence among Taiwanese (across the straits from Xiamen). They initially stayed away after the June repression. But it is curious that investors from Taiwan seem to have continued dealing with the (recently enlarged) Xiamen zone, despite the anti-communist fears which they saw confirmed by the People's Liberation Army action. Trade across the straits continues to boom as well, bringing more connections between Fujian province and the Taiwanese.¹⁴

Reports in the official Chinese media have tended to reassert the continuation of the SEZ policy, but somehow they have to be imbued with a sense of socialist purpose. The most famous zone is Shenzhen (adjacent to Hong Kong) which now is described thus: 'By the sweat of their brow, builders of this brand new metropolis have begun to harvest the fruits of their work'.¹⁵ On a visit to Zhuhai (next to Macau), Wang Zhen (a Vice-President of China) 'urged the people of Zhuhai to adhere to the style of hardworking and plain living'.¹⁶

These attitudes, combined with the recentralisation policies and restrictions on the SEZs' ease of trade and access to power and raw materials, have thrown into doubt the government's real intentions. The downturn in economic growth has in any case affected Zhuhai, with estimates of 30 per cent of its factories having closed in late 1989.¹⁷

But policy seems as yet uncertain: the SEZs may be an issue over which the factional differences in the new leadership are exposed, with the economic reformers (like Jiang Zemin) determined to keep them going much as before, and the 'conservatives' pushing for them to be more strictly controlled and less obviously capitalistic. Their function in generating modernisation and growth in the country's inland provinces has also been re-emphasised, implying that the zones are considered to be self-seeking or at best linking up with only nearby hinterland areas.¹⁸

In September 1989, the 'conservatives' signalled their views. The governor of Hainan (both a new province and the newest SEZ) was sacked by Beijing, accused of using his power for personal gain. Since his offences were both commonplace and relatively minor, some interpret this as both a warning about corruption and as the removal of one of Zhao Ziyang's supporters.¹⁹ However, it did not lead to a widespread purge of independent-minded officials in coastal provinces (such as Ye Xuanping, governor of Guangdong), perhaps indicating both the nature of the balance of forces in Beijing and the power of Guangdong.

As with the SEZs, the government seems to want to give the impression that the coastal priority policy is still intact, though there are indications that it is opposed strongly by some leaders and provinces. However, there continue to be announcements of new projects which derive from the coastal preference. For instance, Shandong province announced four new export processing districts based in coastal cities. These are to use locally generated capital, and have independent powers to handle imports and exports.²⁰ Their function is much more in export promotion than acting as a modernising influence.

Shandong is one of five Coastal Open Districts recognised in early 1988 (but de facto in existence much earlier), and has seen considerable growth of TVEs in a manner similar to the lower Yangzi and Guangdong. Since June 1989 it seems to have been able to continue promoting its developments involving foreign trade and investment, although little seems to have been said officially about these five areas as a component of a continued pro-coastal policy.

Traditional port and industrial areas: preferential treatment?

The coastal region includes a number of old-established industrial centres such as Tianjin and Shanghai which seem likely to enjoy mixed fortunes under the economic slowdown and renewal of central planning. They will have to endure some of the economic constraints imposed in 1988 and reinforced by the post-massacres leadership. But at the same time, with their higher concentration of state-sector industry, they should receive more assured supplies of raw materials without having to compete with the TVEs as in recent years.

For Shanghai, the blessing of state allocations is tempered by the fact that the greatest growth in the city in the 1980s was in its own non-state collectives and TVEs; they are also hit by the recession and recentralisation, so reducing the city's own revenues

and making it highly dependent on state-sources of capital. In addition, the reforms' impact in the 1980s generated considerable capacity in other provinces for industries in which previously Shanghai predominated, such as silk textiles and engineering.

In other 'traditional' industrial areas, like the heavy industry bases in Liaoning, the new role for planning is likely to improve prospects by favouring these state enterprises with more certain supplies of coal, energy and raw materials. The political bargaining-power of this type of coastal area is likely to increase under this process. It is clear that despite the use of the coastal region in the 7th FYP as a single entity for macro-planning purposes, it is much more diverse than it even was before, with different types of economic focus each with its own interests to pursue and with varying prospects under current policies.

The decisions of foreign governments and companies and international agencies will also affect the viability of the open door policy and coastal strategy. China has an estimated US\$ 40 billion external debt, much of it due for repayment in the early 1990s.²¹ The government may try to reschedule some of the debts, so as not to impose too severe restrictions on capital available for investment. But the burden of increasing the earning from exports and invisibles (tourism has collapsed) to make repayments will still be enormous, and falls largely on the coastal region. This problem coincides with a situation in which western governments and companies are (currently) much less willing than in the 1980s to invest and grant credits; they may now consider that political instability makes it too risky.

The Central and Western Regions

Provinces which have a higher proportion of primary-sector economic activities are probably less drastically affected by the new policies than those which built up new TVEs and reliance on the manufacture of consumer goods. This situation applies to a number of provinces in the Central (like Shanxi) and Western (like Qinghai) regions.²² Because much of their economic activity is in the state sector, the central and western regions are likely to benefit from recentralisation. However, as far as foreign involvement goes, one source suggests that concern and investment in remote provinces has almost completely dried up (although foreign investment has generally been very low in areas other than the coastal region).²³

Another factor likely to affect them, especially the west, is that the central authorities are less likely to expect the provinces to be financially self-sufficient. The economic reformers were reducing the levels of subsidy to provinces which had budget deficits, expecting them to develop more commercial (revenue-generating) operations of their own. Conversely, the provinces which produce budget surpluses (and these are mostly in the coast and some in the central regions) are going to be forced to contribute more to central funds. One observer suggested late in 1989 that there may be 'a major redistribution of resources. Under Zhao, coastal and southern provinces fared better in terms of allocations than their inland counterparts. That trend may be reversed, with Peking making a major shift of wealth and resources, from the south and the east to the north and the west, as well as from the localities to the centre.'²⁴

Certainly the lower levels of resource endowment in the coastal provinces means that central direction over their use may favour the resource-rich areas in the centre and west. In addition, a researcher at the State Planning Committee has suggested that the growth of TVEs 'in Central and West China will, for the first time, overtake that of firms in the coastal areas... but he predicted there will still be a large gap between the better developed East and the backward West.'²⁵

Regional policy changes

Even the use of the three macro-regions themselves may be ended as a tool of strategic planning. A report from a Hong Kong source has stated that during initial discussions of the 8th FYP in October 1989, the separation of the Coastal, Central and Western regions is to be discontinued. In their place it was apparently proposed to use divisions into groups of industries which cross over 'regional' boundaries.²⁶ This is largely in line with central planning methods as used before 1978.

This policy change would indicate a major shift away from the idea of regional comparative advantage as a basis for determining the different types of economic activity to be pursued in different places. Such a shift need not signify any reduction in the actual dominance of the coast relative to the inland regions. But the coast might well receive less central funding for the infrastructure hitherto seen as necessary for its advantages to be fulfilled. The policy change may also reflect the fact that some inland provinces' leaders were angry at the lower priority they were getting.

Non-Han minority peoples and the West

The regional priorities issue has also been a sensitive one in relation to the national minorities, which inhabit especially the provinces and autonomous regions of the west.²⁷ Ethnic conflict tensions have been high in a number of areas, despite the more relaxed attitude in the 1980s to religious and cultural practices of the minorities. While martial law was lifted in Beijing in January 1990, it is currently still in force in parts of Tibet. Xinjiang saw large demonstrations in May 1989, some in support of the Tiananmen protests, and others in support of Islamic issues, including the demand for a ban on a Chinese book considered insulting to Uighurs.²⁸

Economic policies affecting the access of minorities to their customary resources (land for herding in many areas, plus agriculture based on different systems to the Han) are as yet less clear. It seems that the new government in Beijing will continue to perceive the minority people's territory as a resource base for the needs of the rest of the country. In a visit to Xinjiang in late 1989, Li Peng hoped that the region 'will be built into one of China's major bases of agricultural products, providing more grain, cotton and sugar for the country.'²⁹ The central government also sees the area as a source of much more oil and gas, and recently-verified new reserves in the Tarim basin have confirmed its major significance for the national economy. 'China is expected to invest up to 1.5 billion yuan in 1989-90 in a large-scale oil exploration and development programme in the basin.'³⁰ This source of ethnic tension seems likely to remain and perhaps intensify.

The (Tibetan) mayor of Lhasa sees the prospects for Tibet's development based on greater linkages with the dominant Han economy, including the promotion of lead and borax mines in the city's vicinity, and joint ventures with factories in China proper.³¹ In Yunnan, recent propaganda also stresses the need for stronger connections with economically-developed provinces in the east. Successful links for a silk mill are mentioned, which have brought technicians in from Jiangsu and Zhejiang to help improve production.³²

The authorities seem also to be paying more attention to rural poverty in minority areas. A recent report stated that there were 331 'poverty-stricken counties' throughout the country, of which 141 were of minority nationalities. This situation has led the new government to promote special policies for the minority regions. These stress the reduction of grant aid, putting more emphasis on support for existing economic activities to improve their returns and promote self-sustaining growth. But this approach includes explorations for the development of mineral reserves and other resources as a high priority.

As Beijing Review recently put it: 'Many people, in eastern and central parts of China particularly, have made remarkable improvements in their lives, while those still badly off, are found mainly in the western areas of China where there are highly compact minority communities.'³³ This renewed apparent caring for the worse-off areas may be partly genuine, partly to reduce ethnic tensions, and partly recognition of the resources to be gained.

Urbanization and rural-urban relations

During the decade of economic reforms, it has been estimated that as many as 80 million non-agricultural jobs were created. About half of these were in TVEs, a further quarter in the state sector, with 11 million more in urban collectives and about 6 million in private enterprises.³⁴ Through this enormous expansion, a significant amount of rural surplus labour was absorbed, much of it going to these jobs in small and medium size towns as well as the cities. As suggested earlier, many of the new jobs were in coastal areas, especially where the TVEs were successful.

A Far Eastern Economic Review analyst suggests that during the cooling-down of the economy there has been a deliberate favouring of the state sector in protecting jobs. To minimise unrest among state urban workers, the government has concentrated on cutting rural industry and private business. So, it is argued, 'the government will be forced to impose controls on jobless rural workers from entering cities.'³⁵ It is not clear that this is an essential outcome of the job losses which have occurred in 1989, unless these people are also seen as potential protestors. How much more easily can they be reabsorbed in agriculture than in urban areas? The mechanisation of agriculture mentioned earlier as another government priority had better be capable of using more labour rather than less! As an article in a Beijing English-language

newspaper put it: '1990 will be a tough year when the surplus rural labour force finds it difficult to set up new firms or find jobs in the existing companies and some returned workers from bankrupt enterprises discover that the limited farming plots of their families do not need them.'³⁶

Certainly state sector industrial workers have been engaged in many protests and strikes in recent years against worsening conditions, and these seem to have continued in spite of the repression begun in June 1989. As the Far Eastern Economic Review put it: 'Worker unrest represents a more dangerous threat than student protests. Therefore, to limit the impact of austerity measures, the government has had to continue paying laid-off state workers rather than forcing them to find new employment.'³⁷ Events in Eastern Europe must also have played their part in the new government trying to mollify workers.

For those forced to look for new work in the rural areas, the new austerity may well deepen social conflicts over income inequality which were already very apparent under the 'get rich quick' policies of the 1980s. They also return to a countryside facing an increase in central authority direction of what they have to do (including possible compulsory labour on irrigation schemes and other infrastructure). This is a situation which is likely to be unwelcome to most peasant families. Guarding against urban unrest may only delay the social explosion, and shift it to the situation in the countryside.

Conclusion

Perhaps it is foolhardy to write this postscript: by the time it is read, events will have led to further policy shifts and more changes in China's geography. Even by March 1989 a meeting of the National People's Congress (the 'parliament') was hearing speeches which suggest that the government is having to reflate the economy to some extent, largely in response to growing unrest intensified by unemployment, layoffs and the closure of TVEs. (The same meeting discussed the 1990 budget, and it seems that the increased spending on agriculture is to be only around 7.5 per cent, compared with a 15 per cent rise in defence spending).³⁸

It is clear that - even if only temporarily - many of the reform policies of Deng Xiaoping's leadership are now in abeyance. Part 1 was written as though the 1980s policies were likely to continue, and should now be read in the past tense at least in some respects. But the policy changes and related spatial responses after June 1989 underline one of the main themes of Part 1: the overwhelming significance of government policies in determining the geography of China.

Analysis of the events surrounding June 1989 has also shown the value of considering them from a spatial perspective. China's changing spatial organisation has its own impact on the policies of the state. This is not to argue that the spatial issues considered here directly caused the crisis of May-June 1989. The causes were many,

and require analysis from cultural, historical, political, economic and sociological perspectives; these are beyond the concerns of this paper. What has been shown here is that spatial issues were part of that crisis.

Recent government statements argue that the economic 'readjustment' is succeeding in 'cooling down the overheated economy'. Particular emphasis has been put on reducing inflation and controlling the money supply. The same source goes on to acknowledge that 'new problems have arisen, including a sluggish market, enterprises operating under-capacity and increasing pressures of maintaining employment.'³⁹ I have emphasised how central control has cut back rural industry: given the under-employment in rural China, this is likely to depress rural living standards, particularly in the small towns and in the rural areas which had been transformed into industrial outposts of the larger cities. In addition, rural areas seem to be expected to re-accommodate many of the millions who have sought jobs in the cities. Furthermore, if peasants are not convinced that increased production will increase their income and that goods they could buy from earnings are in short supply, agricultural production will remain sluggish. The availability of food may then remain uncertain and prices high.

In short the regime faces a series of economic and social problems while there are still urban demands for political reforms. The government is an uneasy coalition of economic conservatives (who want to ensure party control of the economy), economic reformers who seek to ensure a role for market forces and enterprise autonomy (provided it is within bounds set by the state), and sections of the military leadership which had been willing to suppress the urban protesters. It may not be able to agree on how to tackle these problems. Furthermore, it is a grouping which is unlikely to survive Deng's death, at which time we can expect a power struggle in which the dominant faction is still likely to be that which is supported by the old guard in the military. Whatever policies are then applied will lead to a new round of changes to the geography of China.

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Further reading

Geography (1989) October

The annual 'This changing world' supplement in this issue is devoted to China on the 40th anniversary of the People's Republic, and contains short articles of relevance to regional and spatial issues. Also published as a separate booklet available from the Geographical Association.

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Some useful contributions relevant to regional and spatial issues.

Footnotes:

1. It draws mainly on Chinese official English-language sources, the Hong Kong magazine Far Eastern Economic Review, and British newspapers. Part 2 provides footnotes both to emphasize the understandable lack as yet of academic sources, and the potentially obsolete analysis we are presenting in changing circumstances.
2. Beijing Review 16-22 October 1989 p.15.
3. Far Eastern Economic Review 8 February 1990 p.47
4. *ibid*
5. China Daily 4 December 1987.
6. Beijing Review 19-25 February 1990 p.16.
7. "'Economic separatism" emerges' China Daily 26 December 1989.
8. Far Eastern Economic Review 30 November 1989.
9. Beijing Review 16-22 October 1989 p.14.
10. Far Eastern Economic Review 8 February 1990 p.46.
11. *ibid* p.46.
12. The Financial Times 12 December 1989 p.37.
13. Beijing Review 8-14 January 1990 p.6.
14. Far Eastern Economic Review 16 November 1989 pp.68-9.

15. Beijing Review 25-31 December 1989 p.10.
16. *ibid.*
17. Far Eastern Economic Review 8 February 1990 p.39.
18. See for instance the report in China Daily 29 December 1989.
19. Far Eastern Economic Review 28 September 1989 p.10.
20. Beijing Review 25-31 December 1989 p.36.
21. Financial Times 12 December 1989 p.12.
22. Far Eastern Economic Review 30 November 1989 p.69.
23. Far Eastern Economic Review 14 September 1989 p.62.
24. Far Eastern Economic Review 30 November 1989 p.69.
25. China Daily 29 December 1989 p.4.
26. Wen Wei Bao (a Hong Kong paper regarded as close to Beijing) 31 October 1989, reported in BBC Summary of World Broadcasts FE/0603 B 21. It is also reported in Economist Intelligence Unit China, North Korea country profile 1989-90 London 1990.
27. Although Inner Mongolia has been included in the Central region of the 7th FYP, much of what applies to the West and other minority areas applies also to it.
28. Far Eastern Economic Review 3 August 1989 p.37.
29. Beijing Review 11-17 December 1989 p.6.
30. Beijing Review 20-26 November 1989.
31. Beijing Review 28 August-3 September 1989 p.22.
32. Beijing Review 20-26 November 1989 p.35-6.
33. Beijing Review 25-31 December 1989 p.29.
34. Far Eastern Economic Review 8 February 1989 pp.46-7.
35. *ibid.*
36. China Daily 29 December 1989 p.4.
37. Far Eastern Economic Review 18 January 1990 p.17.
38. The Guardian 22 March 1990.
39. Beijing Review 12-18 March 1990 p.4.

