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Regional development policy and regional inequality

John A. Donaldson

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There can be no Communism with pauperism, or Socialism with pauperism. So to get rich is no sin. However, what we mean by getting rich is different from what you mean. Wealth in a socialist society belongs to the people. To get rich in a socialist society means prosperity for the entire people. The principles of socialism are: first, development of production and second, common prosperity. We permit some people and some regions to become prosperous first, for the purposes of achieving common prosperity faster. That is why our policy will not lead to polarization, to a situation where the rich get richer while the poor get poorer. (Deng Xiaoping in a 1986 US television interview, cited in Fenby 2013)</epigraph, range right>

What has caused China's varying patterns of regional development since the establishment of the People's Republic of China in 1949? To what extent can central and subnational regional development policies explain the varied patterns of regional development? This chapter reviews the scholarly debate that is key to understanding the prospects for China's continued development and stability. Although most scholars agree that some variation in the pace of regional development is inevitable and to a certain extent beneficial, the inequality experienced during most of the reform period has been disconcertingly high. This has resulted in dissatisfaction and even protests among those left out of China's development.

To understand regional development in China, we must first ask: what is a region? This is a contested issue. Much of the early analysis of China's regional development was based on theories derived from the European experience, the applicability of which to China's experience is dubious (Cartier 2002). There have been a number of attempts to divide China into several macro-regions. One standard account during the early reform era – by a group of Chinese geographers lead by Ren Mei'e – divides China into eight regions based on natural features (Ren et al. 1979, cited in Cartier 2002). Another approach based on China's biomes resulted in a three-tiered division: three large natural regions, seven meso-regions and 30 three smaller ones (Zhao 1986, cited in Cartier 2002). The earliest and most dominant Western approach – that of geographer G. William Skinner – is based on a regional marketing systems approach. Skinner's argument focuses on nine macro-regions characterized by the physical features of drainage basins or watersheds, and emphasizes the importance of marketing towns, which served to organize peasant life and over time reflected the increasing local diversification of the agricultural economy (Skinner 1964, cited in Cartier 2002). Skinner's arguments usefully drew scholars' attention away from capital cities to more regional concerns, and also blurred the false divide between urban and rural areas (e.g., Agnew 1990). Yet scholars have criticized these and other location-model-based accounts of China's regions by arguing that they are ahistorical, mask differences within regions, and conceal unequal development (Smith 1984, cited in Cartier 2002). The attempt to conceptualize regions along these lines has led to charges of reification of the regions in ways that promote false differences and ignore true ones (Cartier 2002).

Historically, experts focused less on differences between coastal and inland regions and more on divisions between the rice-growing south and the wheat-growing north, with the Huai River serving as a rough dividing line. Economic differences emerged: northern farm sizes were roughly double those of the south (though farms in both regions were small), and tenancy was also lower. The south enjoyed higher irrigation rates, and interlacing rivers and canals facilitated transportation of commodities. Southern farmers could harvest two or sometimes three rice crops each year, whereas in the north, spring wheat harvests would give way to the planting of maize, cotton, soybeans or other crops (Eastman 1988). Cultural divisions also emerged from these distinctions. Rice growing requires much more labour and requires irrigation across fields. This in turn demands that farmers cooperate in order to reap successful harvests. A culture of teamwork and interdependence was thus formed across the south since it was critical to survival, while there were no such pressures in the north (Talhelm et al. 2014).

However, during the more contemporary period, most scholarship divides China into coastal, central and western regions.[i] These divisions, like past attempts to regionalize China, do not reflect any absolute fact, and in truth there are some obvious inconsistencies. The provincial-level unit of Beijing is labelled coastal, though it does not border the ocean. Guangxi is often labelled western, but has a coastline. The north-eastern provinces of Heilongjiang and Jilin – neighbours of Russia – do not seem 'central' in the same way that Henan and Hunan are central. In fact, China's geographic centre is located in the western province of Gansu (*People's Daily* 2000). However, the fact that these divisions are not natural, having been constructed by human agents, makes them no less real; these divisions have had powerful political and economic effects.

However 'region' is defined, the impact of unequal development is substantial. First, if all of China's regions were reasonably well developed, consumption in China would be much higher, strengthening China's economy and enhancing the livelihoods of more people. Lack of development in areas represents a waste of potential human resources and energy for the economy. Second, while China's central and local governments spend significant resources in alleviating poverty, the costs of unequal development are only partially reflected in budgetary terms. Instability, crime, overly rapid migration – each of these has been linked to regional inequality (e.g., Lai 2002; Tian 2004; Fan and Sun 2008). Third, and perhaps most importantly, severely unequal regional development also becomes an ethical question, particularly for a regime that at one time based its legitimacy on liberating hundreds of millions from economic oppression and, in later years, promised that inequality would be temporary (Golley 2010). Deng Xiaoping's commitment to a common prosperity, reflected in the quote that opens this chapter, underscores how vital this is for China's legitimacy.

In addition to debating the effects of China's unequal regional development, scholarly discussion focuses on how to address this gap. Optimists argue that, just as market forces sparked this gap, so too will market forces begin to close it, echoing Kuznets's classical theory that inequality will increase initially before abating as wealth spreads to those previously left behind. Another group of theorists argue that policy interventions – including preferential investment policies and infrastructure financing – are crucial to closing the gap. A third group, by contrast, is more sceptical that market forces or even interventionist policies will be effective. They point to systemic or structural factors – such as the scissors gap described below – that block the equalization of incomes, and thus they expect this gap to continue indefinitely.

This chapter attempts to analyze this debate by reviewing regional development policy from the Mao era until today. First, the chapter traces Mao's largely unsuccessful efforts to promote egalitarian and security goals by developing China's inland regions. Second, it explores the part of the reform era (1978–2000) under Deng Xiaoping until the end of the Jiang Zemin era when policies designed to privilege coastal regions exacerbated regional inequality. Third, the chapter turns its focus to local governments' efforts to develop their economies and thus effect regional development. Fourth, it analyses the efforts to close the gap, starting at the tail end of the Jiang administration and continuing through much of the period of Hu Jintao's administration. Overall, the chapter argues that China's regional development policies during most of the reform period exacerbated regional inequalities. Moreover, regional development policies implemented after the turn of this new century have been largely disappointing in reversing these inequalities. Ironically, it was social rather than regional development policies, implemented under Hu Jintao and Wen Jiabao's administration, that have likely helped to ameliorate these regional divisions. Whether the reduction in regional inequalities continues depends in large part on the continuation and deepening of these social policies and on the development priorities of Xi Jinping and Li Keqiang, China's current leaders.

<a>MAO'S ERA: EGALITARIANISM, SECURITY AND MISPLACED INTENTIONS

The regional development approach of Mao Zedong's administration (1949−76) contrasted markedly with that which came before or has come since. The country Mao inherited was poor and unequal. The vast gaps between rich and poor, and between wealthier and poorer regions, were not only a product of climate and geography (although both of these were vital factors): wealth was concentrated in the hands of the powerful few. During the pre-war Republican era (1911−49), China was only nominally unified under a central government, with different regions under the control of often predatory regional warlords, who routinely ignored central policies. What development there was, was centred in a handful of coastal cities, controlled by foreigners colluding with corrupt and rapacious local officials and financiers (e.g., Hsu 2000). Virtually all modern industry, and much of the mineral industry, was located in the five provinces of Guangdong, Jiangsu, Shandong, Hebei and Liaoning. Of all the factories in China that met the conditions established under China's Factory Law, nearly half were located in a single city: Shanghai. Modern infrastructure was similarly distributed, and mainly facilitated the movement of raw materials and finished goods out of China; such infrastructure had little ability to spread the benefit of whatever growth and industrialization could be generated under those conditions (e.g., Paine 1981). Japanese imperialism, China's long experience with a vicious world war, and its bitterly fought civil war only worsened this situation. By the late 1940s, four cities outside of the Japanese-held Manchuria – Shanghai, Qingdao, Wuhan and Nanjing – held approximately two-thirds of China's modern manufacturing industry. For its part, the Manchurian region – north-eastern China – that had during the early 1940s been a base for Japan's war effort, contained significant resources in manufacturing, construction and mining. While post-war Soviet occupation dismantled many of these capabilities, the remaining productive forces and, importantly, labour and management experience, persisted. Thus, China on the eve of liberation was war-torn, exhausted, poor and grossly unequal. Outside of a few cities on China's coast and its north-eastern areas remained the vast majority of the economic landscape: poor, agrarian and underdeveloped (Paine 1981).

After a few years of stabilizing the economy, the newly established leaders of the People's Republic of China turned to the challenge of developing this war-torn and grossly underdeveloped economy (Fan 1995).[ii] Regional development was a part of the agenda, and was seen as a way of not only industrializing equitably, but also of enhancing security (Fan 1995). China's interior region received much of the investment and specific industrial projects. In addition to equity concerns, China's leaders perceived that industrial production on the coast was located too far away from the natural resources inland. Transporting these materials to production bases was costly and overtaxed China's underdeveloped infrastructure (Yang 1997). Investing in the interior was thus considered an effective way to increase industrial production overall (Fan and Sun 2008). Moreover, the lesson of the Republic of China's tragic experience during World War II made clear that concentrating industrial production on the coast left it vulnerable to military threat (Yang 1997). When Japan invaded coastal China in 1937, it quickly destroyed or captured much of the nation's industrial and war-making capabilities, while the remainder was expensively and painstakingly relocated to more secure locations inland (Paine 1981). Thus China's economic instincts and these security concerns combined to point leaders in the same direction: investing in the rapid industrialization of inland China.

As China's security situation worsened in subsequent years, these military concerns outweighed economic considerations. During the 1960s, Sino-Soviet relations deteriorated, breaking out into border skirmishes. In addition, the US-led war in Vietnam brought foreign troops close to the Chinese border, making a US-led invasion of China seem increasingly likely. Thus, in the mid-1960s, China redoubled its efforts to invest in the inland and even more remote areas of western China. Given China's technological inferiority compared to the advanced forces it faced, China's leaders doubted that an attack could be repelled at the borders. Bringing war-making capabilities inland would support China's superior numbers as they fought amidst more difficult terrain. By the late 1970s, this effort to bolster China's 'Third Front' brought nearly 30,000 projects, including 2,000 production centres – one-third of the nation's total – to the mountainous areas of the west, particularly Sichuan, Guizhou, Gansu and Shaanxi provinces (Paine 1981; Naughton 1988; Yang 1990).

These efforts were reflected in the state's investment in fixed assets. During China's First Five-year Plan (1953−57), interior provinces received RMB 27.6 billion in state fixed investment, nearly 56 per cent of all fixed investment throughout the country (Yang 1990). This figure ballooned to RMB 63 billion, or 71 per cent of total central investment. By the dawn of the Deng era in 1978, inland provinces still received some 56 per cent of central investment, RMB 5.5 billion more than coastal provinces. By 1983, the value of fixed assets in the interior increased from RMB 4 billion in 1952 to RMB 270 billion in 1983, about 57 per cent of China's total of such assets (Yang 1990).

Moreover, the budgetary process allowed the centre to extract revenues from the wealthier provinces, leaving just enough resources to finance expenditures, which were also determined centrally. China's less-developed provinces enjoyed low remission rates or net subsidies, while more developed provinces spent only a fraction of generated revenues. For example, while Shanghai remitted more than 80 per cent of its revenues in 1959, and the coastal provinces of Guangzhou, Shandong and Jiangsu remitted more than 40 per cent, the western provinces of Guizhou, Yunnan and Xinjiang received subsidies ranging from 18 to 26 per cent of their total expenditures. By 1972, Shanghai and Jiangsu provinces continued to remit the vast majority of their revenues and even increased their rates to 90 per cent and 70 per cent, respectively (Lardy 1976a). By compelling wealthier provinces to share revenues and by large-scale investment projects, the centre redistributed assets from coast to inland areas (Lardy 1976a; Yang 1990).

Yet, these efforts to rapidly redistribute wealth and promote the industrialization of western China took a toll on the national economy. The remote and inaccessible locations of these self-contained and self-sufficient production bases rendered them grossly inefficient (Fan 1995). By one estimate, the leadership's Third Front efforts set back China's industrial output by 10 to 15 per cent (Naughton 1988). Moreover, these efforts did little to help redistribute production. As Mao's era came to a close, coastal provinces, despite being starved for resources and investment, continued to produce the majority of China's output. For instance, in 1979 the two leading provincial-level units were coastal: Shanghai produced RMB 1106 per capita while Beijing produced RMB 513 per capita. By comparison, only two of China's non-coastal provinces (the north-eastern industrial bases during much of the Mao era of Heilongjiang and Jilin) produced more than RMB 100 per person (Yang 1990). The coastal provinces' superior location, human resources endowment, managerial experience and infrastructure trumped China's inefficient investment decisions, helping those provinces to maintain their production positions.

Thus the heavy central investment in inland areas failed to shift the balance in production, nor did it close the gap in livelihoods (Paine 1981). What is worse, these efforts meant that the economic situation that was inherited by Mao's successors was plagued by production problems and ineffective management. The twin goals of egalitarian production and enhanced security, combined with poor planning and execution, caused China's overall development to fall further behind the world average. In 1952, China's gross domestic product (GDP) per capita was around a quarter of the world's average; by 1978, that figure had fallen further to 22 per cent (Grewal and Sun 2002). Moreover, despite massive investment, regional development remained uneven, as the coastal areas remained far ahead of China's interior regions.

<a>REFORM, COASTAL DEVELOPMENT AND SPECIAL ECONOMIC ZONES

For many of China's post-1978 leaders, the lessons of the Mao era were painfully clear. If China's new leadership was to develop the nation, the goal of equitable development had to be put to one side, at least for a time. The egalitarianism and security concerns that animated the Mao era approach to the economy in general and regional development in particular were replaced by a focus on efficiency and opening (Fan 1995). Under Deng Xiaoping, development became the 'hard truth' and the highest priority. Virtually all aspects of economic management were guided by the goal of maximizing economic growth and promoting the 'four modernizations' in industry, agriculture, national defence, and science and technology (Andersson et al. 2013). Although Deng Xiaoping hoped that all of China's regions would eventually share in the prosperity, some areas would get rich first.

Yet, as Deng Xiaoping's quote that opens this chapter also suggests, the central government in designing the policy to promote the unequal treatment of China intended that the imbalances would eventually be redressed. In theory, once the coastal provinces got wealthier, they would drive China's growth, promoting development westward to other areas (Fan 1995). In addition to relying on the market forces that would help spread the coast's largess to underdeveloped inland regions, the government also pledged that it would use the coast's resources to finance inland growth – but only after it had reached a sufficient stage of development. For instance, in 1992, Deng Xiaoping predicted that by the end of the century, people throughout the country would be 'comparatively well-off', and the state would have the resources and latitude to address the unequal regional development (Lai 2002). For the time being, however, market reform and opening to the outside world became a fundamental tenet of development, even if that implied China's regions benefitted unequally.

Consistent with this, the reformist leaders abandoned Mao's effort for regional self-sufficiency in favour of assigning specific specializations to each of three macro-regions. During the 1980s, China's leaders established a policy of 'three economic belts' that divided the regions, based on the theory of comparative advantage that is accepted in Western economic thinking. The coastal area would use its location, management experience and superior infrastructure to specialize in foreign trade, manufacturing and export-oriented industry. Inland provinces were assigned to focus on agriculture and industry. The western region, which is endowed with most of China's natural resources, was to focus on mineral exploitation and animal husbandry (Fan 1997).

Another of Deng's early economic reforms was to experiment with economic reforms and preferential policies in coastal China. In contrast with the 'shock therapy' policy of the Union of Soviet Socialist Republics (USSR), China's leaders focused on gradual industrialization, through the use of regionally targeted experiments in economic reform and opening. In July 1979, China's State Council and the Central Committee of the Chinese Communist Party jointly issued a directive allowing two coastal provinces in south-eastern China the flexibility to promote foreign trade and investment. The centrepiece of these policies was the establishment of four Special Economic Zones (SEZs): three in Guangdong province, and one in Fujian. These four were the former fishing town of Shenzhen, with its strategic location across from Hong Kong, and the cities of Zhuhai, Shantou and Xiamen, this last a large city in Fujian province located across the strait from Taiwan. Subsequently, in 1988, the entire island of Hainan was carved out of Guangdong to become an separate province and China's fifth SEZ (Zeng 2011).

The SEZs were designed to attract foreign investment and technology mainly through establishing joint ventures between Chinese state-owned firms and foreign businesses. Initially, state-owned firms were shielded from competition from these joint ventures, which were required to export most of their production. Even as China's state-owned enterprises (SOEs) were reformed in a number of ways and given incentives to raise revenues, Chinese leaders realized that most of these inefficient firms could not survive competitive pressures from foreign-invested firms. Moreover, these state-owned firms were important not only to retain some element of domestic production, but also to provide jobs and social goods to millions of urban workers. Thus, wholesale reform of the state-owned sector could be put off until China's economy was more stable and developed, whereupon more painful and costly reforms could be attempted (Naughton 1996). To the joint ventures, China's reformers offered special concessions that were not offered to SOEs, including the import of capital equipment tax-free and the ability to hire and fire workers more freely. In addition, these zones featured strong infrastructure, supportive local governments, and an inexpensive and seemingly endless supply of well-educated and disciplined workers (e.g., Zeng 2011).

These zones promoted several economic objectives. First, the zones fostered more advanced and efficient firms that would drive employment growth and provide training for Chinese workers and managers in the use of advanced technology and management techniques. Second, both the foreign investment and revenues from exports brought badly needed foreign capital to China. Third, these zones served as a geographically limited experiment for China in how to undertake reforms; the most successful reforms would subsequently be expanded outside the SEZs. Finally, as China had for decades been essentially closed to much of the West, these zones served as 'windows to the outside world' that allowed both China and the outside world to learn more about each other (Heilmann 2008a). Moreover, the zones' purposeful proximity to Hong Kong, Macau and Taiwan promoted the integration of China's economy with the economies of these regions (Fenwick 1984). The zones' success in each of these objectives was remarkable. For instance, by 1981, the four zones accounted for nearly 60 per cent of the total foreign direct investment (FDI) in China, with Shenzhen alone accounting for some 50.6 per cent. By the mid-1980s, FDI in the zones were primary to driving FDI, which totalled US$1.17 billion in 1985, or some 20 per cent of China's total. Utilized FDI in the zones increased exponentially each decade after they were established: from approximately US$7 million in 1980 to US$730 million in 1990 and US$4.4 billion by 2000. Similarly, exports increased from about US$350 million in 1980 to US$10.7 billion in 1990 and US$47.5 billion in 2000 (Zeng 2011).

Reformist Chinese leaders responded to the success of these zones by extending preferential policies to others areas of China's coastal region. By 1984, Chinese leaders had opened 14 coastal cities to foreign investment. By 1985, three large coastal regions, marked by river deltas, were also similarly opened: the Pearl River Delta in Guangdong province, the Min River Delta (including the Xiamen−Zhangzhou−Quanzhou Triangle in Fujian province), and the Yangtze River Delta in eastern China. In effect, China's entire coastal area was opened to foreign investment, constituting what became known as the 'golden coastline' (Fan 1995). In 1987, additional preferential policies complemented the coastal development strategy. General Secretary Zhao Ziyang, in his October 1987 report to the Thirteenth National Congress of the Communist Party of China, ushered in an 'Advance Along the Road of Socialism with Chinese Characteristics' (Zhao 1987). In the report, Zhao declared that China should take bolder measures to engage in the global economy, and aimed to develop its export-oriented economy (Meisner 1996).

Thus, by the end of the 1980s, China's central development policy benefited primarily one region, as coastal provinces were endowed with a number of preferential policies not enjoyed by other areas. The state committed to investing in joint and local projects through loans, subsidies and direct appropriations. SEZs and other open zones were allowed to retain earned foreign exchange at a higher rate than other areas, and some open provinces were allowed to retain more revenue for their own use. Industrial inputs, including coal and other natural resources, as well as agriculture, were subsidized by the state, reducing the costs of manufacturing and allowing these areas to literally feed the workforce. Finally, coastal provinces and enterprises enjoyed greater autonomy (Fan 1995). Consistent with General Secretary Zhao's goal, the FDI and technology that had been predominantly invested in China's SEZs spread throughout the coastal region (Demurger et al. 2001).

In addition to these preferential policies, central leaders encouraged industrialization in China's coastal regions by providing subsidized inputs. The Seventh Five-Year Plan (1986−90) formalized what was already a widespread practice in coastal areas: obtaining subsidized raw materials, energy and agricultural products in exchange for more expensive finished products. Under this plan, raw materials were bought at below-market rates (Yang 1997; Lardy 1992) by the coast to manufacture added-value or high-tech goods, a portion of which were then sent back to the inland areas and sold at a higher price (Solinger 1996; Fan 1997; Yang 1997).

Inland provinces were left wanting. Over 90 per cent of China's raw materials (Zou 1998), including energy resources such as coal, oil and natural gas, are found in the naturally well-endowed inland areas (Sun 1988). Yet, the sharply increased demand for such raw materials paradoxically hampered the interior region's development. Requiring raw materials and energy to fuel the growth of coastal areas, the central government purchased raw materials for the coast at below-market prices.[iii] Thus the development of coastal industries caused inland and western SOEs to absorb heavy loses (Yang 1997; Tisdell 1993). By policy, the central government constrained the latitude of firms that produced natural resources to set their own prices (Lardy 1992; Yang 1997). Paradoxically, the increased demand for raw materials suppressed the development of the better-endowed provinces.

<a>REGIONAL GOVERNMENTS AND REGIONAL DEVELOPMENT

To be sure, the central government is not the only driver of regional development: provincial and local governments at all levels have planned and implemented policies of their own. China is far from a federal system. Regions are constrained by the central government through continued control over personnel and a targeted responsibility system that monitors the performance of regional leaders on a range of economic, social and policy indicators. Yet, from the dawn of the reform period in the late 1970s, sub-central governments have experienced increasing latitude in setting development priorities and economic policy. An early series of studies focused on the development approaches of nearly every provincial-level government (Goodman 1997; Hendrischke 1999; Fitzgerald 2002; Cheung et al. 1998). Other research compared dyads or triads of policies from different provinces. For instance, Elizabeth Remick (2004) compared the differences in tax collection in Tianjin and Guangdong, both during China's Republican period and in the early days of reform. While Guangdong focused on establishing a more institutionalized and formal system of tax collection, Tianjin's approach centred on shaming shirkers. These differing approaches had an impact on the subsequent development strategy of these provinces. Linda Li (1998) studied investment policy in Shanghai and Guangdong to argue that the provinces' use of several tools, including bargaining with the centre and leeway over implementation of central policy, gave them significant room to develop in their own way. While the relationships between these provincial-level governments and the centre varied greatly, as did their development strategies, both became important engines of growth and development for coastal China.

Some regions had policies that were sufficiently consistent and successful to be labelled models. For example, the Pearl River Delta area of Guangdong province, which includes the city of Guangzhou, along with the dynamic SEZ of Shenzhen and surrounding areas, in the early days of reform implemented a development strategy based on attracting foreign investment in basic, low-tech manufacturing. Under this model, the economy boomed. By contrast, the southern portion of the coastal province of Jiangsu developed through the promotion of township and village enterprises (TVEs). The Yangtze River Delta development model leveraged the advantages that local officials-turned-entrepreneurs had in rallying resources and labour (e.g., Frolic 1994; Oi 1995). These TVEs remained competitive through much of the 1990s, but soon lost much of their comparative advantage, after which the model declined. But for a time, this model contributed to driving the rapidly growing region of southern Jiangsu and elsewhere (Oi 1995). Prefecture-level municipalities drove some of the local initiatives, with their control over vast territories that included both cities and countryside. For instance, the coastal prefecture-level city of Wenzhou implemented a set of policies coherent and successful enough to be dubbed the 'Wenzhou model', which focuses on small-scale family-owned firms (Liu 1992; Parris 1993). While private actors were key to the model, local officials supported the development of such firms by protecting private property rights in order to tap into private ownership of capital. The restructuring of private enterprise into shareholding collectives facilitated central government receptiveness and assuaged local entrepreneurs' concerns over property rights protection. Moreover, the collectivization of enterprises also saw tax benefits and increased access to factor, product, land and credit markets, greatly facilitating their growth (Whiting 1999). Thus, Wenzhou – a prefecture-level city – became a key driver of economic growth, but in a form that differs markedly from that of the varied approaches of Pearl River Delta, the Yangtze River Delta or Shanghai.

More recently, a number of scholars – Meg Rithmire (2014) dubs them the 'new regionalists' – have compared several subnational governments to explain variation in regional development. For instance, Breznitz and Murphree (2011) examine variation in regional innovation within the information technology industry in the Pearl River Delta and Shanghai. They argue that under 'structured uncertainty' these regional governments showed different patterns of investment and promotion in the industry. William Hurst (2009) uses a historical-social approach to understand the differences in policies towards laid-off workers in four macro-regions. Donaldson (2011) compares the development approach of the neighbouring provinces of Guizhou and Yunnan. He argues that the micro-oriented state approach started by Guizhou leaders as early as the late 1980s has helped to reduce rural poverty, despite the lack of economic development. These and other studies emphasize that regional development is not just centrally driven, but driven by subnational governments themselves.

<a>REBALANCING DEVELOPMENT? OPENING THE WEST

What were the effects of these local and central regional development policies in China during the first decades of the reform period? A variety of quantitative research on regional inequality during this period appears to point in the same direction: from 1978 to at least 2000, interregional inequality increased sharply and steadily. A number of recent analyses adopt different methods to measure this inequality. For instance, Cindy Fan (1995, 1997; Fan and Sun 2008) argues that, starting in 1978, China's growth core shifted from China's old industrial regions of Shanghai, Beijing, Tianjin, Liaoning and Heilongjiang to a new growth core, primarily the coastal provinces of Shandong, Jiangsu, Zhejiang, Fujian and Guangdong. By 1990, this core continued to grow quickly, and was joined by the previously rapidly growing provincial-level municipalities of Shanghai, Beijing and Tianjin (Fan and Sun 2008). The analysis of Andersson et al. (2013), which eliminated short-term fluctuations in order to observe long-term trends, finds similar patterns. They trace a growing east−west divide, one that peaks around 1994; although it is not until 2003 that these scholars see the inland region showing significant signs of catching up. Li and Gibson (2013) criticize most other research by noting three errors related to China's massive internal migration that skew analyses of regional development. Still, while these scholars argue that regional inequality has been exaggerated, the overall trends based on recalculated data are nevertheless consistent with these other studies. Between 1990 and 2005, they observe a rising gap (although at a much slower rate than other studies) between coastal and inland provinces, with the rate of increase slowing between 2000 and 2005. Thus, despite very different approaches to analysing patterns of regional development, these scholars come to a broadly similar conclusion. Coastal provinces grew rapidly and at a much faster pace than western provinces. The gap between the two increased rapidly for at least the last two decades of the twentieth century.

In reaction to these growing inequalities, China's then president Jiang Zemin announced the Western Regional Development Programme during the second half of 1999. Some 20 years after the establishment of the SEZ strategy that contributed to the development of the coast, central leaders sought to start to close the gap between the coastal and western regions – this being nearly the time that Deng had predicted in 1992 (Lai 2002). To be sure, the central leadership did not wait until this major policy shift to implement more modest policies aimed at improving the living standards in western China. For instance, the central anti-poverty plan promulgated in 1986 was in large part aimed at reducing rural poverty, much of which was located in the interior. In addition, as early as 1990, China's Eighth Five-Year Plan paired a number of coastal provinces and cities with specific underdeveloped areas. The wealthier areas were supposed to advise and support their less-developed counterparts. What is more, twice during the mid-1990s, China's then Premier Zhu Rongji pledged additional investment for inland and western China. Finally, the south-western city of Chongqing in 1997 was split off from the larger province of Sichuan, in large part to help manage the massive Three Gorges Dam project and to allow Chongqing to serve as a growth pole to promote western development (Lai 2002). Many of the local governments in the western region used the more open policy environment to implement their own policies. For instance, Chongqing and Chengdu, in an effort to spur agricultural production, have both experimented with different forms of land policies.

Despite these efforts, however, the gap between coastal and inland areas continued to widen, as noted above. Between 1976 and 1980, the coast's share of state investment in the provinces increased from 42 per cent in the late 1970s to nearly 54 per cent by the mid-1990s, while the inland areas' share of investment declined from nearly 50 per cent to less than 39 per cent. Similarly, pledges from the centre for more investment in inland China did not come to pass – state investment in basic construction in the region remained stable at just under 40 per cent of the country's total throughout much of the 1990s (Lai 2002). By 1997, inland and western China attracted only 10.7 per cent and 3.5 per cent, respectively, of all foreign direct investment. Whereas poverty in all of China declined in the early 1980s, most of this was experienced on China's coast. By 1996, poverty rates in seven coastal provinces declined to 1.2 per cent of the provincial population, while they remained high in north-western (18.6 per cent) and south-western (10.5 per cent) provinces – which held nearly 70 per cent of all of China's poor (World Bank 2001). Not surprisingly, more than 80 per cent of China's designated poor counties were found in China's inland and western regions (Lai 2002).

These GDP and poverty figures spurred the central government to promulgate in 1999 a more ambitious plan to develop China's western regions, the Western Regional Development Programme. As Golley (2010) quoted Jiang as arguing at the time, the programme 'is an important move to carry out Comrade Deng Xiaoping's strategic thinking of "two great situations," eliminate regional disparities gradually, consolidate the unity of ethnic groups, ensure border stability and social stability, and promote social progress.' The policy was explicitly designed to develop China's western provinces that had been neglected since the beginning of the reform era in 1978 (e.g., Tian 2004). The way that the 'west' was defined underscored the point that regions are not primordial, but are instead constructed. The policy, implemented in 2000, designated as 'western' nine provincial-level jurisdictions that had already been designated as such in the start of the reform era, plus the newly established Chongqing municipality. In addition, in late 2000, two provinces that were previously classified as inland and coastal provinces – Inner Mongolia and Guangxi, respectively – were reclassified as western. The western region was expanded again one year later, by adding not more provinces, but three prefectures, one each from Hunan, Hubei and Jilin provinces (Goodman 2004a; Holbig 2004).

The Western Regional Development Programme's ambitious list of objectives seemed promising. By March 2000, Premier Zhu Rongji used the Government's Work Report announcement to the Third Plenum of the Ninth People's Congress to describe the key goals of the policy for developing western China. In the wake of the Asian financial crisis of 1998, the western development project was intended to spur exports and stimulate domestic consumption throughout China (Fan et al. 2011). Since the mid-1990s, China also faced a glut of manufactured goods; stimulating the below-average consumption levels of the west was designed to partially alleviate this problem (Lai 2002). The overall approach would channel market forces, with the government providing overall macroeconomic management (Grewal and Ahmed 2011).

In addition to the social and economic development of western regions and industrial restructuring, the policy sought to enhance the western areas in numerous other respects. The comprehensive list includes consolidating agriculture, promoting education in science and technology, protecting the environment, stimulating tourism and bolstering the public health system. The plan also aimed to improve infrastructure in the west, including highways, railways and hydropower projects. The interior areas were still highly dependent on SOEs, which by the mid-1990s produced 47 per cent of industrial output in inland provinces and 69 per cent of that in western provinces. The Western Regional Development Programme was designed to improve the performance of SOEs while promoting the development of the non-state economy in the west (Lai 2002). The plan also included measures to check desertification, as well as to promote and protect the west's forested land. Through promoting the west, policy-makers also sought to boost China's economy overall by freeing up additional natural resources from the west, and expanding domestic demand by spurring the consumption from a more prosperous west (Grewal and Ahmed 2011; Onishi 2001; Lai 2002). The policy was to achieve these aims by encouraging foreign and domestic investment through tax incentives and other preferential policies. In designing the policy, the government promised to allocate funds raised domestically and overseas through its 'three 70 per cent policy': the allocation to the west of 70 per cent of state fiscal assistance, funds raised through government bond issues, and loans from foreign governments and international organizations (Onishi 2001).

Through this programme, the centre has developed a number of large-scale projects in western China. Between 2000 and 2005, the centre planned 70 major construction projects. During this period, new roads built in the west reached some 220,000 kilometres, including 6,853 kilometres of highways. By the middle of the decade, the centre had invested some RMB 460 billion in construction projects; fiscal transfers and subsidies added an additional RMB 500 billion, to bring total investment to RMB 1 trillion (Yao 2009; Chen and Lu 2009).

Despite these ambitions, the impact of the Western Regional Development Programme remains contentious. Proponents argue the policy has spurred growth. For instance, from 2001 to 2010, the average annual growth rate of state investments in fixed assets in western China was nearly 31 per cent, more than that in China's eastern (22 per cent) and inland (26.6 per cent) regions. Between 1999 and 2010, fiscal transfers allocated to western China increased from 29 per cent to nearly 40 per cent of total fiscal transfers (Zheng and Deng 2011). Inward FDI grew rapidly in the region from less than US$2 billion in 1999 (less than 5 per cent of the nation's total) to US$20.8 billion in 2010 (just under 20 per cent of the country's total). In terms of impact, scholars note that the west has grown somewhat faster than the rest of China. Between 2000 and 2010, for instance, the GDP of China's western regions grew on average 13.5 per cent each year, exceeding the growth of inland and north-eastern China. While the share of GDP generated by the west has increased only slowly (from 17.1 per cent in 2000, to 18.7 per cent in 2010), the policy's defenders argue that at least the policy has helped to arrest the expanding gap between western and eastern China, and has brought more of China's largess to a previously underdeveloped region.

Sceptics counter that the policy has yet to achieve its aim of developing the Western region. In its initial years, investment in fixed assets that was promised as part of the programme did not materialize; the west's share even by the mid-2000s remained at less than 20 per cent of China's total, while the share of the centre declined. Moreover, even as western provinces' share of total fiscal transfers rose from 28 per cent in 1999 to 34.4 per cent in 2004, this was offset by the loss of the share of collected revenues retained by these provinces (Yu, H. 2010; Grewal and Ahmed 2011).

Moreover, despite the rapid increase in investments, the economic benefits from the plan were not apparent for several years. According to one scholar, the west's share of GDP actually declined between 1999 and 2007 (Yu 2010a). Even to policy supporters, the region's economic growth did not surpass that of eastern China to become the fastest-growing region in China until 2006 (Lu and Deng 2011). As noted above, this is consistent with other recent analyses: Fan and Sun (2008), Andersson et al. (2013) and Li and Gibson (2013) all see regional inequalities declining, but not until the middle of the 2000s, several years after the policy to develop the west was first implemented. As a regional development policy, the results were much more modest than expected; subsequent policy may have had more of an impact on regional development.

Further, detractors note that the types of economic growth and regional development that were generated may not have made a major impact on the lives of ordinary people. Much of the economic growth generated in inland and western China has not been in industries that generate employment and sustain consistent growth, but is instead concentrated in mining, food processing and manufacturing, petroleum processing and coking, leather and furs, and special-purpose equipment (Golley 2010). Many of these industries – which are not especially labour-intensive, according to Golley's (2010) calculations – primarily support the strategy of using natural resources in western China to fuel coastal development. Others question the sustainability of the growth, noting that much of the growth appears to be generated from increasing inputs, not efficiency (Andersson et al. 2013; Lu and Deng 2011). For those looking for an aggressive policy of concentrated regional development led by the central government and supported by coastal China, the policy was disappointing.

Finally, some sceptics charge that the Western Regional Development Programme's key objectives are not to help the west economically, but to further integrate these minority areas into China and consolidate them into China proper.[iv] China had long been concerned about the separatist movements that were located in the western provinces of Tibet and Xinjiang, and to a lesser extent Inner Mongolia (Lai 2002). The promotion of the west's economy was also intended to more closely integrate minorities into the Chinese economy (Lai 2002), to spur additional Han majority migration into minority areas (Schrei 2002), and otherwise to neutralize ethnic conflict and ensure China's regional integration (Goodman 2002). As one critic argued, 'At its heart, the plan is not a humanitarian enterprise. It is instead an effort by the Chinese government to further consolidate control over troublesome regions' (Schrei 2002). If so, then the policy has failed to benefit the native population, economically or otherwise.

<a>REGIONAL DEVELOPMENT UNDER THE HU–WEN ADMINISTRATION

If the Western Regional Development Programme was largely disappointing, what explains the regional development seen in the interior during the mid-2000s? Perhaps it was the policies and approaches of Jiang Zemin and Zhu Rongji's successors? Ironically, the subsequent administration led by President and Chinese Communist Party (CCP) General Secretary Hu Jintao and Premier Wen Jiabao has been derided for being largely ineffective in addressing a number of China's problems and priorities. The Hu and Wen administration (2002−12) has taken criticism for not prioritizing extending economic reforms, for failing to tackle corruption in any serious way, for tightening political controls on dissent, for recentralizing China's political system, and for overseeing rising income inequality. These collective failings have led some to label the regime as a 'Lost Decade' for China's reform (Naughton 2014). Yet, many of the policies implemented during the Hu and Wen administration benefitted western China. Though less prominent than the launch of the Western Regional Development Programme, the Hu−Wen social policies may have contributed to slowing and even reversing the growing chasm between coastal and inland China.

Hu's policy to develop a 'harmonious society' (*hexie shehui*) moderated what had been a singular dedication to economic growth in favour of addressing other social problems, including poverty, inequality and illiteracy (Saich 2006; Heilmann and Melton 2013). In particular, Hu Jintao consistently focused on mitigating inland−coastal provincial inequality, as well as rural−urban inequality, through strategies such as agriculture reform and better public goods provision, especially grassroots health care and basic, rural education (Saich 2006, 2007). Hu's 'scientific development view' (*kexue fazhan guan*) deemphasized his predecessors' focus on economic growth at the expense of other priorities (Wei 2005). Although powerful Chinese political figures opposed the idea (Zheng 2007b), this approach was institutionalized in 2006 as 'the policy orientation of the Party' (Zheng et al. 2006: 2).

The policy catalysed regional development by focusing not on the region but on social policy for poor rural residents. First, the Hu−Wen administration's policies aimed to establish new safety nets for poor rural farmers and to boost rural incomes. These included a number of policies such as schemes for rural education and health care, establishing a minimum living standard, and setting up a pension scheme. These were not regional development policies per se. Yet, because most of the beneficiaries of these policies were from these regions, the gap between the regions narrowed. Several specific policies contributed to this comparative rise in western fortunes. First, the distribution of some RMB 76.3 billion (US$12.5 billion) between 2002 and 2012 in agricultural subsidies helped grain production to increase and added to the coffers of China's farmers (China Data Center n.d.; Zhao 2005). Second, the launch in 2003 of the new Rural Cooperative Medical Scheme reduced the risk of those catastrophic health problems that impoverish millions of households and hamper consumption (National Health and Family Planning Commission 2012). Third, in 2006, the central government began publically financing the rural compulsory education system, and brought additional financing for rural education from a number of levels of government. Fourth, the Rural Minimum Living Standard Security Scheme provided a basic allowance to tens of millions of rural residents – far more than under the old Five Guarantees (*wubao*) System – whose incomes are lower than minimum standards (Ministry of Civil Affairs 2013). Finally, the 2009 New Rural Pension Scheme covered millions of retired farmers with minimal support, supplementing other sources. The programmes helped rural residents throughout China, and especially those in poorer inland areas (Fan et al. 2011). Thus, the regional development that has been spurred may not have emerged primarily from regional development policy. More likely, it was an effect of anti-poverty policies that have had a disproportionate effect on regions where subsistence agriculture remained and rural poverty was more severe.

In addition, the Hu−Wen administration also established a number of initiatives that were meant to elevate regions that had benefited neither from the coastal development policies, nor from the opening of the west. These include the Revive the North-East Programme (2003), the Rise of Central China Programme (2004), and also the Pearl River Delta Programme (2008) and the Yangzi River Delta Programme (2010) (see Heilmann and Melton 2013).

<b>Revive the North-East

As noted earlier, the three north-eastern provinces of China, along with Shanghai, Beijing and Tianjin, were part of the older industrial areas of China (Hu and Lin 2010). Since the establishment of the coastal development programme, which saw the construction and entry of more competitive foreign invested enterprises, the large-scale industrial bases in the north-east declined rapidly. North-east China's gross value of industrial output as a share of national output declined steadily, from 16.5 per cent in 1978 to 9.3 per cent in 2003 (Chung et al. 2007). Saddled with inefficient management, obsolete technology, as well as large pensions and other social burdens, the governments in this 'rust belt' were challenged by reforming these enterprises.

Just after President Hu Jintao succeeded President Jiang Zemin, his administration began touting the revitalization of the north-east as a 'fourth engine' of Chinese economic growth (Chung et al. 2007). The policy, established in 2003 and formally launched in 2004, aimed to increase wealth and promote rapid industrialization in north-east China, and to turn the region into a national and even international base for manufacturing of equipment and supply of raw materials (Dong 2005). The policy included a number of pro-market initiatives, including acceleration of ownership reform, as well as other structural and institutional reforms. In addition, the state upgraded transport and electricity networks and added modern ports and airport facilities (Dong 2005; Chung et al. 2009). The policy also intended for different provinces to focus on a handful of pillar industries. For instance, Liaoning province would focus on petroleum, iron and steel, and equipment manufacturing; Jilin would focus on modern agriculture and pharmaceuticals; and Heilongjiang would focus on equipment manufacturing, energy, pharmaceuticals and environmentally friendly food production (Zhang and Wan 2005).

Like the Western Regional Development Programme, this project was intended not only to return economic vitality to the north-east, but also to ensure the region’s stability. The economic challenges of the north-east have sparked numerous protests, reason enough to revitalize the economy. Moreover, the government was concerned about the integration of Korean minorities into Mainland China. A stronger north-east would help to bring a stronger economic and political presence near the Korean peninsula (Yoon 2004), capitalize on the opportunities found in both North and South Korea, and provide additional stability and vitality to a border region.

From the little research that has been done, it appears that the results so far have been mixed. Proponents note that the three north-eastern provinces have seen faster growth compared to previous years (Zhang 2008; Chung et al. 2009). The policy brought increased investment in fixed assets, and the key enterprises within the designated pillar industries also grew faster than average (Zhang 2008). Whether these gains are sustainable remains an open question. The policy has not yet overcome the difficult barriers represented by years of state ownership of key industries, the planned economy, and the conservative governments that have managed these provinces for years. Today, the role of large centralized SOEs in the economy remains significant, and the region lacks funds for social, economic and environmental development (Chung et al. 2009).

<b>Rise of Central China

Premier Wen Jiabao announced in 2004 the ‘Rise of Central China’ policy to speed the growth of six inland provinces (Shanxi, Henan, Anhui, Jiangxi, Hubei and Hunan), and to address income inequality, rural poverty and rural unrest in these regions. Due to development policies in other regions, inland China has fallen behind not only the high levels of development of the more advanced coastal area, but also the quickening pace of the west. This region has been a key grain-producing region, but incomes from both agriculture and off-farm employment have stagnated in recent years. In addition, the region suffered from the closing down of uncompetitive SOEs, increasing both unemployment and social discontent (Lai 2006).

In response, the Rise of Central China policy intended to promote the region as a major grain production base and a production base for raw materials and energy, as well a high-tech industrial base, a manufacturing base for modern equipment, and a transportation hub (Xinhua 2006a). The first two items on this list were already designated as part of the centre’s responsibility under the divisions of labour policy announced by reformist leaders in the mid-1980s. Whether this scattered policy helps to develop the central regions remains to be seen.

<b>Other Aspects of Hu−Wen Policy

Other aspects of China that have affected regional development during the Hu and Wen administration include first, a massive influx of infrastructural investment and second, the recentralization of policy. First, in the wake of the 2008−09 global financial crisis, China announced a series of stimulus packages designed to temper the effects of the crisis on China's economic growth (Overholt 2009−10). More than a third of the RMB 4 trillion stimulus included infrastructure investment for western China, including railway, rural roadway, irrigation and airport construction. These included a number of highway construction projects in western China (Ma and Summers 2009). Designed to help facilitate the spread of coastal wealth to inland China, the projects have been criticized as being wasteful and a source of official corruption. Moreover, according to one calculation, expenditure on infrastructure in western China has had an expected negative effect on economic growth (Grewal and Ahmed 2011).

Second, the recentralization policies of Hu−Wen may have helped to even out regional development. Many scholars argue that decentralization of fiscal resources and development policy has contributed to the growth of coastal China, even as it has disadvantaged inland China. The Hu−Wen administration was marked by attempts at recentralization, even during attempts to spark regional development (Heilmann and Melton 2013). For instance, Heilmann and Melton (2013) argue, 'It is a remarkable feature in the making of both the Chongqing and Pearl River development programs that the central government … monopolized the plan drafting process.' While regional governments could submit proposals and were consulted, these cross-provincial and cross-border development plans were 'ultimately treated as a central-government affair that transcended regional competencies' (Heilmann and Melton 2013: 593). This recentralization likewise allowed the central government to drive the process of development in favour of redressing imbalances and spreading the largess of China's growth to areas that had suffered severe gaps. In this way, the policies echoed the Mao era goal of bringing development to interior regions that remained far behind the coastal areas.

<a>UNEVEN DEVELOPMENT AND INEQUALITY

Uneven development has characterized most of China's modern history. In the decades following the successful revolution and establishment of the People's Republic of China, CCP Chairman Mao Zedong and his colleagues tried to close development gaps through massive investment in inland and western China. Despite these efforts, though, coastal China still remained dominant in China's economy. Reacting to the failures of the Mao period and hoping to develop China's economy rapidly, Deng Xiaoping ushered in an era of unequal development. Policies to establish SEZs and other efforts to promote coastal development, combined with the coast's geographic and other advantages, worsened inequities in regional development, as did most local government-led efforts at promoting regional development. The Western Regional Development Programme and other efforts to spread development from coastal to inland areas largely failed to close the gap.

Through continued efforts in inland development, the establishment and strengthening of a social safety net in poorer areas of China, and political recentralization, the Hu and Wen administration seems to have begun the process of rebalancing regional development. The positive impact of some of these initiatives – such as the agricultural subsidies – on regional development has been indirect, but has made a distinct difference. The contribution of other policies – such as massive infrastructure investment – has been more dubious. Nevertheless, many scholars see a crossroads in regional development. The gap between coastal and inland regions has begun to reverse itself and slowly close (Fan et al. 2011; Li and Gibson 2013; Andersson et al. 2013). While most doubt that the west will ever fully catch up with the coast (Golley 2010) – complete parity is both unrealistic and probably unnecessary – the reduction of inequality could contribute to China's continued development, as well as to its social stability.

To the extent that the policies of Hu and Wen have helped to reverse regional inequality, will this alleviation continue? Some scholars point to market effects, which they argue have already facilitated the spread of wealth from east to west. These scholars are optimistic that inequality will continue to ebb, regardless of government policy. Other scholars point to policy reversals of the Xi and Li administration, and worry that they are undermining many of the positive effects of the Hu and Wen administration. Still others note that the basic structural factors driving unequal development have yet to be addressed. The debate on the future patterns of regional development thus continues.

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i

At one time, the coastal provinces included Hebei, Liaoning, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong, Hainan and Guangxi. The inland provinces included Shanxi, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei, Hunan, Inner Mongolia and Shaanxi. The western provinces included Sichuan, Chongqing, Guizhou, Yunnan, Gansu, Qinghai, Ningxia, Xinjiang and Tibet. As mentioned below, these provinces – and even parts of provinces – have been classified differently for different purposes. The term 'central province' is confusing in a chapter that also refers to a 'central government'. For this reason, these provinces will hereafter be referred to as 'inland provinces'.

ii

The overall approach adopted by Mao and his leadership to develop China is multifaceted. This chapter focuses on the regional aspects of his overall policy.

iii

Although a similar relationship existed during Mao's era, inland areas at that time were partially compensated via interprovincial transfers (Fan 1997).

iv

Some two-thirds of China's international boundaries are located in central and western provinces, and 20 of China's 55 minorities in these provinces live directly on these borders. Although less than one-quarter of China's population lived in western provinces in the late 1990s, 56 per cent of the nation's minorities called western China home.