

Interaction between Geography and Policy: Variation in Development Performance
within China's Eastern Zone

by

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Thesis submitted in partial fulfillment of
the requirements for the degree of
Master of Arts in the Department of
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ABSTRACT

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Abstract

This paper examines the trend of variation in development performance within China's Eastern Zone and the underlying mechanism of the changing trend. Empirical descriptions as well as analyses are provided based on the comparison between data on development performance of regions and provinces and records of policy transformation from 1949 to the end of 20th century. Furthermore, a comparative case study on two of China's leading provinces in the Eastern Zone, Guangdong and Shanghai, is conducted in order to reveal how the interplay of differences in geographical conditions and policy makes contributions to their development disparities in Maoist development period and post-Mao development period. This study finds that development as well as policy advantages are not unevenly shared in China or in China's Eastern Zone. Furthermore, the study reveals that a two-way interaction between policy and certain aspects of geographical conditions exists and it gives rise to development disparities in China's Eastern Zone. According to detailed analysis, there are two main channels through which the interaction functions. On the one hand, geographical conditions act as an important shaping force underlying policy formulation and then a specific set of policy is issued to assist development of a specific province based on the influence of its geographical conditions. On the other hand, the influence of geographical conditions comes to shape development performance directly even at the time when a similar set of policy is carried out by provinces.

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1. Introduction

For a long time, uneven development has been an outstanding characteristics of China's development pattern and its existence can be detected not only in the picture of national development but also in the regional and provincial pictures of development in China. In academia, great amounts of attention has been paid to the trend as well as the underlying mechanism of development disparities between China's regions to study how the trend varies from period to period and how the mechanism works to shape development disparities.

This paper intends to explore the trend as well as the mechanism of uneven development with Chinese experience. Specifically, what interests this paper most is the development disparities existed within China's relatively more developed Eastern Zone. The research is of significance for several reasons. First, viewing from varied perspectives inspires a deeper understanding of development. Both in theory and in practice, development is perceived as a concept with significantly broad coverage. Theoretically speaking, while some scholars consider it narrowly as economic growth, others favor a broader definition regarding development as "the expansion of individual freedom" (Sen, 1999). In the realm of application, development can also be seen from different perspectives such as national development, regional development, and provincial development. Uneven development as a phenomenon is frequently observed while comparisons are made between nations, regions, and province. From time to time, uneven development takes place even within certain geographical limit, giving rise to variation in development performance within a nation, a region, and a province. This turns development into a more interesting topic of discussion and

reminds people of the importance of perspective in studying uneven development. Taking the vast size of China into consideration, there are a number of perspectives available for observing development in China and it is quite likely that observations from these perspectives will yield different pictures to illuminate our understanding of development. For this reason, any detailed discussion on China's development should divide the country into regions before pursuing the topic further instead of simply viewing it as a whole.

Second, discussion on uneven development sheds light on confronting inequality. On the one hand, uneven development is mostly referred to inequality in economic development and it tends to impede sustainable economic growth in the long run. On the other hand, uneven development can be understood from an ethical perspective and failures to take this ethical dimension into consideration may have adverse effects on the political stability and unity (Smith, 1994; Wang and Hu, 1999; World Bank, 1997). For a country like China that embraces socialism as its ideology, the issue of uneven development means something more. Therefore, an investigation on the trend as well as the causal relationship underlying acts as a further step into the underlying mechanism of regional disparities in China and a more sophisticated test on the geography-comes-first presumption since it manages to hold the geographical conditions relatively constant and efforts then can be devoted to investigating the existence and significance of other possible factors.

One potential answer to the mechanism of uneven development in China's Eastern Zone argues that development disparities between provinces in the Eastern Zone are resulted from the interaction between aspects of geographical conditions and policy. On the one hand, there is the influence of geographical conditions on policy

outcomes bringing about development disparities. In a more indirect way, certain policy is formulated taking geographical conditions into consideration. On the other hand, the relation works in the opposite direction as well, as a same set of policies targeting at provinces in China's Eastern Zone with varied geographical conditions gives rise to variation in development performance between provinces.

This paper in the first place intends to cast doubt on the significance of the three-region division in China by pointing out variation in development performance existing within the Eastern Zone is of equal importance at least. Thus, attempts are made to identify other major factors that shape the intra-regional variation within the Eastern Zone while holding the geographic factor relatively constant; and an investigation is conducted concerning the underlying mechanism that provides explanations for development disparities within the Eastern Zone.

2. Literature Review

Currently, there is a burgeoning literature on China's regional development and scholars in the field discuss as well as disagree with each other on a variety of issues. This section starts the literature review by categorizing these studies into groups depending on their answers to two particular questions, namely, the way these studies divide China into regions and the factor they identify as the critical contributor to China's regional disparities.

As for scholars interested in China's regional development, they are in the first place faced with the problem of deciding on a criterion to divide the whole nation into regions for detailed analysis. Generally speaking, a wide range of approaches are available to divide a nation into regions but each particular choice is made depending on the criterion under application (Friedmann and Weaver, 1979). Therefore, regional issues are instinctively relative and constructed, which reminds scholars the criterion they make use of should be carefully adjusted to the research question being pursued (Yang, 1997). For instance, viewing from the surface, the criterion that divides China into the Eastern Zone, the Central Zone, and Western Zone is based on significant differences in geographical conditions, resource endowments and development performance of the three regions. Fundamentally, this three-region division brings with itself a presumption that geographical conditions are the major force at work and other possible factors make their contributions to the existing variation between regions under the fundamental influence of geographical conditions (Lardy, 1992).

On the one hand, northern China and southern China are one group of the frequently employed concepts in China's regional studies and the underlying criterion applied here is the different weather conditions in these two regions caused by their

difference in latitude (Yang, 1997). On the other hand, the division of coastal area and the interior is also widely accepted among scholars who conduct research on regional issues in China and some of them further divide the interior into the Central Zone and the Western Zone for clearer distinction (Chen and Fleisher, 1996; Fan, 1997; Fleisher and Chen, 1997; Jian, Sachs, and Warner, 1996; Wang and Hu, 1999; Wei, 2000; Yang, 1990; Yang, 1997). The criterion employed in this division is the varied geographical conditions between regions. Moreover, there are several economic zones across administrative boundaries in China including the regions along Yangtze River and Yellow River, which are set up following the direction of the central government in pursue of collective development. Besides, a more sophisticated way of separation is utilized in Wei's analysis (2000), which classifies China's provinces into six groups including urban, industrial, coastal, central, southwestern, and northwestern provinces taking both economic development and location into consideration. In addition, there is another approach treating individual province as the unit of analysis and recently the number of literature on interprovincial inequality in China is on its rigorous increase (Chen and Fleisher, 1996; Jian, Sachs, and Warner, 1996; Lyons, 1991; Tsui, 1991, 1996). With reference to a more systematic approach, Kwok (1996) suggests the ways of dividing China into regions to be grouped into three sets according to the foundation of regions, namely, geographical region, urbanization region, and policy region.

As for the second question, inquiries on China's regional development suggest a number of possible causes such as geographical conditions, market, policy, and globalization (Cheng and Kwan, 2000; Wang and Hu, 1999; Wei, 2000; Yang, 1990; Yang, 1997). First of all, there is an increasing interest in academia concerning the

role of geographical conditions in shaping the process of development (Dear and Wolch, 1989; Gregory, 1994; Gregory and Urry, 1985; Massey, 1984, 1995). Massey (1984) summarizes that distance, closeness, and geographical variation between places are all essential contributors to the operation of social process. Though geographers seek to establish the dominance of geographical conditions in determining a variety of outcomes, a summary by Tang, Li, and Kwok (2000) calls to mind that the importance of space should always be comprehended with other factors such as the social structure, and there is a two-way interaction between the role of geographical conditions and the reproduction of social structure indicating the former is not only a force underlying existing social structure but also a product of the social structure.

Second, market has long been regarded as one of the forces giving rise to variation in China's regional development since China's economic reform introduces elements of market economy in a gradual process in terms of time and place. Emphasizing equilibrium conditions and the role of market in allocating resources, neoclassical growth theory tends to perceive uneven development as a transitory phenomenon since it is viewed as a consequence of resource reallocation under the influence of market (Borts and Stein, 1964; Smith, 1975). Furthermore, the inverted-U theory illustrates that there is a tendency for uneven development between regions to increase in the early stage of development but a decrease will come once the economy enters its maturity (Hirschman, 1958; Friedmann, 1966). However, another group of economists suggest divergence rather than convergence to be the long-term result of uneven development but still they recognize and pay special attention to the role of market in the process. For example, there are the dependency and structural

schools arguing the existence and the increase of regional disparities are inevitable consequences of capitalism since in free market economy factors of production tend to flow to the more developed regions (Myrdal, 1957). Clearly, this tendency will widen the gap between regions and strengthen the existing pattern of uneven development. Krugman (2000) also confirms that the process of self-reinforcing agglomeration in regional development reveals the tendency of market in widening the existing gap between regions.

To be noted, there is an emerging body of literature on the role of institutional factors in shaping regional development as well, and the state has received great amounts of attention in recent studies as the critical agent in a variety of activities (Appelbaum and Henderson, 1992; Granovetter, 1985). It has been widely recognized among scholars that one of the most insightful experiences drawn from the Asian Miracle is that these countries managed a successful combination of state intervention and free market, in which policies issued by the central government to direct the process of economic development in specific region had vital influence on its development performance.

Concerning the major forces structuring development disparities in China, policy is suggested to be a powerful answer. Studies have shown that there is a clear changing pattern in China's regional development policies from 1949 to the current stage and the influence exerted by these policies on regional development differ in different periods (Fan, 1997; Wei, 2000; Wang and Hu, 1999; Yang, 1990; Yang, 1997). The year of 1978 is widely recognized in academia as the fundamental division in China's development pattern, after which China entered its unprecedented reform period introducing vital elements of market economy in the strict planned economy it

used to employ (Fan, 1997; Wang and Hu, 1999; Yang, 1990; Yang, 1997). According to Dali Yang's analysis (1990), there are two main periods in China's development policy making, with its development strategies of the 1953-78 period named "Maoist development strategy" and strategies formulated after 1978 falling into the category of "Post-Mao development policies". As for the short period of 1949-53, it is regarded as a time of restoration. These policy analyses reveal that China's development strategy in the period of 1953-78 differs greatly from that of the latter period and the shift of emphasis from equalization to efficiency exerts tremendous influence on regional disparities in China (Guo and Wang, 1988; Jian, Sachs, and Warner, 1996; Wang and Hu, 1999; Wei, 2000; Yang, 1990; Yang, 1997). On the basis of empirical analysis, Tsui (1996) discovers a close connection between the increased inequality in the 1980s and a series of reform policies including opening up, fiscal decentralization, upgrade of industrial structure, and introduction of FDI. On the subject of China's opening up policy, another empirical study at the level of cities notices that, policies aiming at the promotion of openness contribute substantially to the variation in growth rates as well as ability to attract FDI between cities (Derek, Li, and Owen, 2003).

Additionally, globalization has recently been proposed as a force worth noticing in structuring uneven regional development (Dicken, 1998; Wei, 2000). As the crucial participants in the process of globalization, multinational corporations play the role of bringing capital, technology, and management skills to less developed places; however, they as rational actors still have a criterion for locating investment to maximize expected profits. For this reason, it is understandable that the location of

multinational corporations turns out to be uneven between regions and then they become a notable contributor to the uneven pattern of development performance.

According to the review, previous studies have approached regional development in China from varied perspectives and in different scales. Still, some problems in research remain unsolved or not properly solved and there is room for improvement. Most important of all, the focal point of recent research on China's regional development concerns mainly about questions such as whether the gap between China's coastal area and the interior grows wider through time or not and what factor contributes to the variation in development performance between the coastal area and the interior (Derek, Li, and Owen, 2003; Lee, 2000; Tsui, 1996; Wang and Hu, 1999; Wei, 2000; Yang, 1990; Yang, 1997; Ying, 1999), but few efforts have been made to explore development variation possibly existed within the coastal area or the interior. In this case, dividing China into two parts in the discussion of regional development becomes a commonly accepted practice and people apply it as norm without further doubts. This is indeed problematic for a deeper understanding of development. Even certain study does offer an inspiring insight that development variation within the coastal area is relatively more substantial than disparities between regions (Tsui, 1993), limited attention has been paid to further inquiry.

Besides, most studies on China's regional development identify only one cause of the uneven development pattern and when two or more factors are identified they tend to be treated as two separated forces contributing to uneven development between regions through a channel independent from the other. For example, Yang (1997) perceives China's regional development since 1978 mainly as a result of policy reorientation under which a process of comparative liberalization participated

by both the central and the local government was on and this process no doubt political by nature. Different from Yang (1997), Wei (2000) views China's regional development as the interplay of three forces including foreign investment, state policy, and local states; however, in the actual analysis these three forces are treated as separated and little attention has been paid to possible interaction.

This paper intends to make contributions to research on China's regional development by filling the gap of existing studies discussed above. Due to the core of this paper lying in China's regional development, the three-region division is applied since it is closely accorded with variation in terms of development performance between regions. Precisely, development performance of the three regions varies to a great extent though these three regions are operating under a same set of political institutions. Overall, the Western Zone is an economically lagging place with sizable natural resources and the Eastern Zone is perceived as the place of prosperity endowed by historical and geographic advantages, while the Central Zone performs average in terms of development and resource endowments.

Since the emphasis of this paper lies mainly in the Eastern Zone, a detailed definition of this region is of necessity. By and large, there are 34 provincial-level administrative regions in China, including 23 provinces, 5 municipalities, 4 direct-controlled municipalities, and 2 special administrative regions. According to the criterion used by the National Bureau of Statistics of China, China's Eastern Zone is consist of eleven provinces and direct-controlled municipalities: Beijing, Tianjin, Liaoning, Hebei, Shandong, Shanghai, Jiangsu, Zhejiang, Fujian, Guangdong and Hainan. In this paper, the two concepts, the Eastern Zone and the coastal area, are used in an exchangeable way. To be noted, Hainan was part of Guangdong Province

and it was not separated from Guangdong to become a provincial-level administrative region until 1988. Different from some studies on China's regional development (Yang, 1990; Yang, 1997), this study excludes Guangxi Provinces from the list of coastal province following the categorization made by the National Bureau of Statistics of China in their report.

A number of substantial similarities are shared by these eleven provinces and geographical conditions are no doubt the most visible of all. Located all in the eastern China, ten of them share the coastline of the country except Beijing, but it is very close to the coastline as well. This kind of location provides them with enormous advantages over the other two zones in realms of transportation, communication, and access to information as well as technology (Wang and Hu, 1999; Yang, 1990; Yang, 1997). Furthermore, previous studies suggest the Eastern Zone does enjoy superior factor endowments compared to the interior in experienced labor force, skilled management, and other better supporting facilities such as the coverage of highway and railways (Cheng, 1982; Rawski, 1979; Yang, 1990).

However, disparities in terms of development performance can still be detected in the Eastern Zone. Previous studies on China's regional disparities tend to adopt a broader perspective with comparisons and contrasts mostly made between the coastal area and the interior, while the Eastern Zone as a whole is often viewed as a symbol of development and variation in development performance within the area is left largely unexplored. This paper aims to persuade that variation in development performance within the Eastern Zone is significant enough to deserve attention from scholars whose interests are currently limited to development disparities between China's regions. Accordingly, the scope of analysis of this paper is narrowed

specifically down from the whole nation to the Eastern Zone. Besides, while similarities in geographical conditions and a series of other factor endowments can be regarded as relatively constant within the area, efforts can be devoted to seeking for other possible factors as well as interactions between these possible factors. Moreover, this study pays more attention not only to factors contributing to differences in development performance but it concerns deeply about the possible interaction between these factors. Key factors such as geographical conditions and policy are not perceived as individual forces giving rise to the uneven pattern of development, instead an in-depth investigation is conducted to reveal the interplay between forces to provide a more accurate picture on China's regional development.



Figure 1: Map of China's Provinces

3. Theory

The major interest of this paper is to investigate the domestic as well as political forces contributing to the variation in development performance within China's Eastern Zone, and to provide an empirical description as well as analysis of the changing pattern of provincial disparities within the Eastern Zone. Altogether, they will illuminate our understanding of China's regional development as a whole. In consideration of the requirements on perspective being domestic as well as political, it is justifiable to exclude globalization, which concerns mainly about the international environment, from the list of factors under observation. Also, market as an economic factor will be discussed only in a limited manner, for the focus of this paper is political by nature. On the grounds that the government has always been a key participant in economic activities in China, the functioning of market is limited to some extent. Consequently, the potential factors contributing to development disparities within China's Eastern Zone to be discussed in this paper are geographical conditions and policy; however, the emphasis lies not only in these two factors individually but the way they interact with each other to shape development performance in a mutual manner. Regarding geographical conditions, this paper digs into a deeper level than simply asking whether certain place is along the coast or not and what this paper interests in are other aspects of geographical conditions, including area, distance between certain place to the national capital, and the closeness between this place and its neighboring countries or regions. On the subject of policy, this paper looks specifically at policies issued by the central government aiming to exert influence on development performance such as investment policy and the open door policy. Attention is also paid to China's Five Year Plans formulated by the central

government every five year, considering they usually play an important role in identifying the focus of development as well as guiding specific policy formulation in the following years.

As for the period of observation, this paper starts its analysis from 1949, the founding of People's Republic of China, to the current stage, while the priority lies still in the reform period. The development performance of each province within China's Eastern Zone before the period of observation will be analyzed briefly and their levels of development in 1949 will be treated as the starting point of analysis.

The core hypothesis proposed by this paper suggests that existing variation in development performance within China's Eastern Zone is a result of the interplay of differences in aspects of geographical conditions and policy they received. This interplay proceeds from a stage to another. The essence of this interplay requires that a set of policies issued by central government at specific time (stage 1) should not be viewed individually, and then efforts are to be made to dig into the political concerns between policies and the relations between geographical conditions and these political concerns. For instance, certain region or province is more likely to receive preferential treatments brought by policy compared to others in stage 1, since the geographical factor comes as a major consideration in the process of policy formulation or it is already a force underlying the political concerns to shape policy formulation through an indirect channel. Hence, variation in development performance emerges as a result of direct policy influence as well as the indirect interaction between policy and geographical conditions with the latter acting as the underlying shaping force of the former.

Entering stage 2, a new series of policies are carried out to pursue goals of the current stage. Again, certain aspect of geographical conditions takes part in shaping these policies together with political concerns and both of them should be taken into consideration. Furthermore, there is another force of influence on policy formulation that requires equal attention, namely, variation in development performance between places emerged in stage 1. Evidently, it plays a role in shaping policy formulation in stage 2, and this specific source of influence is in nature resulted from the interplay between geographical conditions and policy in stage 1. Altogether, they contribute to policy formulation and construct policy outcomes. This pattern of interplay continues, as variation in development performance between places changes throughout time.

This paper pays attention to two main channels through which the interaction between geographical conditions and policy takes place. On the one hand, geographical conditions act as an important shaping force underlying policy formulation and then a specific set of policy is issued to assist development of a specific province based on the influence of its geographical conditions. Under the direct influence of policy, this province develops in a pattern differ from provinces with different geographical condition. In essence, the variation in development performance between provinces is resulted not only from the direct influence of policy but also the indirect influence of the interaction between geographical conditions and policy. On the other hand, the influence of geographical conditions comes to shaping development performance even at the time when a similar set of policy is carried out by provinces. In this case, geographical factor is no longer the underlying force of policy formulation; instead, it becomes a direct force interacting

with policy in the process of implementation to bring out differences in policy outcomes in provinces with different geographical conditions.

Given the interaction between geographical conditions and policy, the analysis of developmental disparities within China's Eastern Zone is complex by nature, which calls for empirical tests to reveal the underlying mechanism; however, few previous studies have examined how the interaction goes on and how it contributes to variation in development performance in China's Eastern Zone. Therefore, this paper intends to fill the gap by directly exploring the issue. The next section of this paper introduces the methods employed in the process of exploration before carrying out empirical tests.

4. Methodology

This paper argues that policies issued by China's central government together with geographical conditions of each place as well as their interaction are the major determinants to provincial variation in development performance within China's Eastern Zone. Thus, the unit of analysis in this paper is individual province within the boundary of China's Eastern Zone. To test this hypothesis, a comprehensive investigation on the role of policy in structuring development performance is conducted, looking into how policy changes from time to time and how policy differs from province to province in order to study the impact these changes as well as differences have on provincial development performance.

On the grounds, two sets of tests are proposed in order to check whether the hypothesis can stand or not. In the first set of inquiry, policy changes through time are the focus. Viewing through the timeline, the effects of policy transformation on development performance of a specific province can be explored while holding other possible forces relatively constant. In the second section, attention is focused mainly on certain period in order to examine how policies varying from one province to another manage to bring about different development outcomes with policy transformation through time remaining constant. On the one hand, examining policy transformation through time reminds people that geographical factor is not the only ultimate cause of development disparities within China's Eastern Zone since disparities persist while geographical conditions remain largely constant through time. On the other hand, analyses on policies issued in certain period reveal the influence of geographical conditions on development performance along with the impact of policy since policies implemented in one province can differ greatly from policies adopted

by another provinces, which might be resulted from differences in geographical conditions between the two places.

To carry out these empirical tests, an overview covering important facts concerning development of the Eastern Zone since 1949 is provided in the beginning and dominant trends of development disparities in each period are summarized. Furthermore, an in-depth description and analysis of policy transformation targeted at the Eastern Zone is offered. At last, two out of the eleven provinces in the Eastern Zone are selected for a comparative case study conducted throughout periods as well as within certain period to further our knowledge on the mechanism that gives rise to provincial disparities in development performance within the Eastern Zone.

It has already been widely recognized that development indicators should no longer be regarded only as the reflection of the level of development, and their active role in shaping people's perception as well as response to development is calling for further recognition. Hence, this paper pays special attention to the process of development indicators selection, especially to the comprehensiveness of indicators. Due to the focus of this paper lying mainly in the economic aspect of development, gross domestic product (GDP) is selected as the major indicator of development performance with per capita industrial output and GDP growth rate as supplements. Also, the level of investment as key to production is taken into consideration as an important aspect of development performance. There are reasonable doubts concerning the comprehensiveness of GDP as the development indicator; however, previous studies have proven the significant correlations between GDP per capita and a number of important socioeconomic variables (Wang and Hu, 1999). Compared to other economic development indicators such as gross output value (GOV), GDP turns

out to be a better choice for taking all the final products owned by all residents into consideration.

In terms of another important subject under observation, policy, three sets of policy are widely regarded as essential to development and earlier research on policy pays special attention to them: fiscal policy, investment policy, and open door policy (Wang and Hu, 1999; Wei, 2000; Yang, 1990; Yang, 1997). Owing to the core of analysis being domestic and political, more efforts are devoted to the investigation on investment policy and open door policy while fiscal policy is examined in a limited way. What this paper is extremely interested in are the changes of investment policy from Maoist development period to post-Mao development period as well as their influence on development performance. One obvious modification in investment policy is the introduction of foreign investment in the reform period. Accordingly, analysis on investment policy in the reform period is to take both state investment and foreign investment into consideration while only state investment is under examination in Maoist development period.

5. An Overview of Development Performance

This section presents the picture of uneven development in China's Eastern Zone to convince that development disparities within the Eastern Zone are significant enough to receive more attention from researchers who used to concern first and foremost about development disparities between the coastal area and the interior. Therefore, a brief summary of regional disparities in China since 1949 is put forward with an emphasis on the reform period. In comparison, a detailed description and analysis of development performance of the Eastern Zone through the time of observation is provided as well to reveal the existence and significance of development disparities within the area.

The history of uneven development in China dates back to the ancient time. Regionalism has long existed in China, which is to a certain extent resulted from the fundamental variation in geographical conditions, namely, the three topographic steps with the Tibetan plateau in the west, mountains and plateaus in the central, and plains in the east (Zhao, 1994). This basic geographical structure provided eastern China and certain part of central China with considerably more favorable conditions for agriculture, transportation, and industrial development in the early stage (Pannell and Ma, 1983). After the Opium War (1839-42), China as a semi-feudal and semi-colonial society was forced to sign The Treaty of Nanjing which required the opening up of five treaty ports (Shanghai, Guangzhou, Ningbo, Xiamen, Fuzhou) for colonial control (Murphey, 1974). Afterwards, an addition of treaties were signed between China and western countries requiring a higher degree of opening up of China's coastal area. Moreover, during the early 20th century northeastern China was under the control of the Japanese and certain foundation of heavy industry was set up in the

area to support Japan's invasion into other countries. At the same time, most parts of China were still isolated from the outside world with barely any industrial foundation. Overall, the uneven pattern of development in China took root before the founding of PRC.

When CCP came into power in 1949, China was a typical under-developed country featured by vast regional inequality. While most regions still depended their livings on traditional agricultural activities and remained completely isolated, industrial activities were largely concentrated in the northeastern region and several coastal cities such as Shanghai, Tianjin and Qingdao, which were once under the control of colonial powers. According to *Report on Chinese Conditions*, the coastal provinces produced over 70 percent of China's total industrial output based on merely 11.34 percent of the total territory by the end of 1940s (SSB, 1984). In comparison, the interior was left far behind, as it contributed only 8 percent of national industrial output while occupying over half of the land (SSB, 1984).

Table 1 displays the distribution of per capita industrial output by province in China, which categorizes all provinces into three groups, namely, Eastern Zone, Central Zone, and Western Zone. Records are shown in form of percentage of national average in 1952, 1965, 1974, and 1979, starting from the time when China completed its restoration to the time when it was about to enter the reform period. In 1952, only six of a total of 29 provinces managed to reach the national average of per capita industrial output and four of them located within the Eastern Zone with another two situating in the Central Zone. What's more, no province within the Eastern Zone failed to reach the half line of national average, but four provinces in the Central Zone and five in the Western Zone fell into this category. Undoubtedly, development

disparities between regions measured by per capita industrial output did exist in China in the beginning of 1950s.

Looking at data of 1979, the previous pattern transformed to a certain extent. First of all, the total number of provinces that reached national average per capita industrial output grew from six to seven. Moreover, the number of provinces unsuccessful in producing half of the national average went down from four to zero in the Central Zone and the number for the Western Zone was three dropping from five in 1953. However, something persisted, namely, the imbalance existing between the coastal region and the interior. For instance, the only one succeed to join the group of provinces that produced more than the national average was Jiangsu, a province located along the coast. As for the two provinces of the Central Zone that reached national average in 1952, Heilongjiang's percentage fell from 222 percent of national average to 141 and the percentage of Jilin dropped from 161 to 120 in 1979.

Table 1: Per Capital Industrial Output by Provinces, 1952-79*

Province/Year	1952	1965	1974	1979
EASTERN ZONE				
Liaoning	385	334	300	257
Beijing	481	385	617	513
Tianjin	1,112	572	663	498
Hebei	55	86	122	84
Shandong	62	58	77	87
Jiangsu	84	93	113	138
Shanghai	1,517	1,165	1,404	1,106
Zhejiang	76	72	58	85
Fujian	69	56	48	59
Guangdong	84	94	85	79
Hainan				
CENTRAL ZONE				
Heilongjiang	222	195	127	141

Jilin	161	148	109	120
Inner Mongolia	60	251	187	63
Shanxi	92		72	91
Henan	30	41	43	50
Anhui	36	40	36	51
Hubei	74	64	58	86
Jiangxi	54		49	51
Hunan	40	41	44	63
Guangxi	33	32	37	57
WESTERN ZONE				
Xinjiang	82	86	46	54
Gansu	51	87	100	92
Ningxia	10	24	35	80
Shaanxi	56	73	64	80
Qinghai	45	73	99	78
Sichuan	55	53	41	54
Guizhou	33	48	34	36
Yunnan	48	38	32	40
Tibet	7	13	14	11

Source: Riskin, 1987; Yang, 1997.

* Percentage of national average.

A more fundamental perspective other than production, namely, investment, can be adopted here to examine regional disparities in the pre-reform period. As key to production, investment exerts great influence on development performance. For the purpose of analysis, investment is divided into two categories depending on sources, domestic investment and foreign investment. However, foreign investment is temporarily excluded from the analysis since the introduction of foreign investment in large amounts is not allowed in the pre-reform period. As for state investment, its normal functioning did not start until the launch of the First Five Year Plan (FYP) in 1953.

Table 2 shows in general how state investment in fixed assets was shared by the three regions between 1953 and 1980. According to the table, it is obvious that both the Eastern Zone and Western Zone experienced a series of fluctuations in terms of the amount of state investment during the pre-reform period but their fluctuations moved in opposite directions. On the one hand, the Eastern Zone accounting for 44.08 percent of the total investment in the very beginning went through a declining trend of years and was down to its bottom in the period of 1966-70, 29.39 percent. During the 1970s, the Eastern Zone finally struggled out of decline and its share of the national total gradually increased to the peak in the pre-reform period, a portion similar to its starting point. On the other hand, the amount of state investment received by the Western Zone was at its bottom between 1953 and 1957 and it reached a peak at 38.08 percent after years of consecutive growth. Afterwards, the portion fell back to the point it started from, accounting for merely half of the amount of state investment received by the Eastern Zone.

Table 2: Total Investment in Fixed Assets by Region, 1953-80 (in percentage)

Year/Region	Eastern	Central	Western
1953-57	44.08	34.38	21.52
1958-62	40.65	36.00	23.37
1963-65	37.49	35.04	27.45
1966-70	29.39	32.51	38.08
1971-75	39.47	33.28	27.28
1976-80	45.77	32.70	21.55

Source: Li, 2000; Shao and Zeng, 1993

Starting from 1978, China entered the reform period and a series of significant changes then took place in its pattern of regional development. Viewing again from

the perspective of production, Table 3 presents a comparison between China's coastal area and the interior in term of gross domestic product from 1980 to 1994. As there was a continuing growth of national total from 4,470 to 45,586 million yuan in the period, the trend of the coastal area differed drastically from that of the interior. At the starting point, the coastal area accounted for 50.66 percent of national total in term of gross domestic product while the interior took the rest 49.34 percent, and it is reasonable to conclude that the gap between the two regions in the aspect was close enough at the time when the reform was initiated; however, records of 1994 signify that the percentage of the interior has declined considerably from 49.34 to 41.36. At the same time, the coastal area experienced an upward trend with its percentage of national total growing from 50.66 to 58.37, though a short period of backwardness in 1990 was detected with its percentage dropping from 54.40 to 53.78.

Table 3: Gross Domestic Product by Region, 1980-94 (in 100 million yuan)

Year	National Total	Coast		Interior	
		Amount	% of total	Amount	% of total
1980	4,470	2,264.68	50.66	2,205.32	49.34
1981	4,773	2,467.78	51.7	2,305.22	48.3
1982	5,193	2,727.28	52.52	2,465.72	47.48
1983	5,809	3,026.03	52.09	2,782.97	47.91
1984	6,962	3,622.26	52.03	3,339.74	47.97
1985	8,557.60	4,402.59	51.45	4,155.01	48.55
1986	9,696.30	4,984.70	51.41	4,711.60	48.59
1987	11,301.00	5,931.29	52.48	5,369.71	47.52
1988	14,068.20	7,519.08	53.45	6,549.12	46.55
1989	15,606.14	8,490.26	54.4	7,115.88	45.6
1990	17,226.21	9,263.54	53.78	7,962.67	46.22
1991	21,142.09	11,642.94	55.07	9,499.15	44.93
1992	25,794.29	14,593.28	56.58	11,201.01	43.42
1993	34,227.68	19,810.50	57.88	14,417.18	42.12
1994	45,586.40	26,607.90	58.37	18,978.50	41.63

Source: SSB; Yang, 1997.

This expanding tendency in regional disparities can be examined from the perspective of investment as well. In this case, both state investment and foreign investment should be taken into consideration. Table 4 proposes a picture of the changes of total investment in fixed assets in the coastal area and the interior from 1981 to 1994. According to Table 3, there was an impressive rise of the coastal area in being the destination of state investment with its percentage of national total increasing from 50.94 to 65.83; however, the situation for the interior seemed to move in an opposite direction as its portion fell from 49.06 percent of national total to merely 34.17. Starting from nearly the same place in 1979, the coastal area ended up becoming a much more attractive place for domestic investment compared to the interior in the 1990s.

Table 4: Total Investment in Fixed Assets by Region, 1981-94
(in 100 million yuan)

Year	National Total	Coast		Interior	
		Amount	% of total	Amount	% of total
1981	408.2	207.93	50.94	200.27	49.06
1982	790.67	401.80	50.82	388.87	49.18
1983	1,303.21	688.76	52.85	614.45	47.15
1984	1,750.69	925.24	52.85	825.45	47.15
1985	2,417.57	1,274.83	52.73	1,142.74	47.27
1986	2,887.44	1,566.96	54.27	1,320.48	45.73
1987	3,499.34	2,020.22	57.33	1,479.12	42.27
1988	4,349.34	2,591.92	59.59	1,757.42	40.41
1989	3,980.64	2,380.59	59.80	1,600.05	40.20
1990	4,281.21	2,525.68	58.99	1,755.53	41.01
1991	5,284.28	3,142.15	59.46	2,142.13	40.54
1992	7,575.61	4,689.55	61.9	2,886.06	38.10

1993	11,993.80	7,688.78	64.11	4,305.02	35.89
1994	15,753.82	10,370.10	65.83	5,383.72	34.17

Source: SSB; Shao and Zeng, 1993; Yang, 1997.

While the performance of China's coastal area improved strikingly in attracting domestic investment, it was growing into a more favorable destination of foreign investment at the same time. Table 5 presents the trend of development of the Eastern Zone, the Central Zone, and the Western Zone measured by the amount of foreign investment they actually received and used during the period of 1985-94. Looking merely from a numerical perspective, there was a visible decrease for the coastal area from 87.30 to 85.32, indicating a slight increase for the interior; however, a deeper analysis reveals that the under-developed Western Zone in fact went through a decrease from 5.13 percent of the national total to 4.31 in the period while the increase was accounted all by the Central Zone. The more troubling part of this trend is that the distributing pattern of foreign investment in China remained extremely uneven after 16 years of opening up. At the time when foreign investment in large amounts was officially allowed to enter China in 1979, the only place it could possibly go was limited within the coastal area, which justifies its uneven distribution in the beginning of the 1980s; but its continued concentration in the relatively developed coastal area shows how obvious as well as serious the problem of regional disparities is in China in terms of receiving foreign investment to stimulate development.

Table 5: Total Foreign Investment by Province, 1985-94 (in percentage)

Province/Year	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
EASTERN	87.31	83.77	86.48	82.63	86.08	89.12	87.76	85.54	81.71	82.54

ZONE										
Liaoning	1.86	2.77	4.94	4.14	3.67	7.49	8.19	4.69	4.86	4.33
Beijing	6.74	8.6	5.75	15.98	9.31	8.12	5.53	3.18	2.44	4.12
Tianjin	4.24	2.95	7.23	1.94	0.91	1.07	3	0.98	2.24	3.05
Hebei	0.63	0.65	0.56	0.61	1.27	1.29	1.28	1.03	1.45	1.57
Shandong	2.7	3.77	6.66	2.85	4.75	5.4	4.89	9.12	6.85	7.67
Jiangsu	2.54	1.94	4.69	3.98	3.69	3.9	4.95	13.3	10.4	11.31
Shanghai	8.16	8.55	11.63	7.4	12.28	5.06	3.28	4.49	11.56	7.44
Zhejiang	2.02	1.42	1.97	1.39	1.57	1.43	2.09	2.18	3.77	3.44
Fujian	9	3.59	3.01	4.62	10.13	9.31	10.65	12.94	10.51	11.16
Guangdong	49.42	49.53	40.04	39.72	38.5	46.05	43.9	33.63	27.63	28.45
Hainan										
CENTRAL ZONE	7.58	10.49	6.93	7.91	7.29	5.06	5.19	8.48	12.13	10.38
Heilongjiang	0.3	1.41	0.76	2.2	1.67	0.83	0.47	0.66	0.85	1.05
Jilin	0.37	1.39	0.4	0.31	0.29	0.51	0.71	0.68	1.01	0.73
Inner Mongolia	0.2	0.43	0.27	0.2	0.13	0.31	0.04	0.05	0.31	0.12
Shanxi	0.04	0.01	0.27	0.21	0.29	0.1	0.09	0.49	0.32	0.1
Henan	0.63	0.61	0.74	2.04	1.34	0.33	0.86	0.48	1.12	1.16
Anhui	0.23	2.02	0.18	0.89	0.25	0.39	0.24	0.5	0.94	1.11
Hubei	0.61	0.71	1.41	0.71	0.83	0.92	1.05	1.85	1.98	1.81
Jiangxi	0.8	0.52	0.29	0.28	0.27	0.22	0.44	0.91	0.76	0.79
Hunan	2.07	0.56	0.16	0.41	0.68	0.41	0.57	1.21	1.6	1
Guangxi	2.33	2.83	2.45	0.66	1.54	1.04	0.72	1.65	3.24	2.51
WESTERN ZONE	5.11	5.74	6.59	9.46	6.63	5.82	7.05	5.98	6.16	7.08
Xinjiang	0.83	0.8	0.96	0.16	0.03	0.16	0		0.19	0.15
Gansu	0.04	0.07	0.01	0.07	0.03	0.04	0.11	0	0.04	0.26
Ningxia	0.02	0	0	0.01		0.01	0	0	0.04	0.02
Shaanxi	1.18	2.13	3.96	3.55	2.83	1.38	0.72	0.41	0.86	0.72
Qinghai	0.01			0.09				0.01	0.01	0.01
Sichuan	2.18	1.83	1.32	1.28	0.38	0.71	1.83	1.02	2.09	2.77
Guizhou	0.74	0.7		0.31	0.37	0.31	0.32	0.18	0.16	0.19
Yunnan	0.12	0.22	0.34	0.26	0.23	0.21	0.08	0.26	0.35	0.2
Tibet										

Source: SSB; Yang, 1997.

Briefly put, there is an apparent pattern of uneven development between the coastal area and the interior in China but this is still not the whole picture. Accepting what we have arrived at in a hasty manner is likely to urge us to jump to the oversimplification that geographical conditions determine the level as well as the pattern of development. For this reason, a more thorough investigation into the coastal area in terms of development performance will enlighten people's understanding of uneven development in China.

Looking again at Table 1 helps establish the general picture of variation in development performance within China's Eastern Zone from 1952 to 1979. To be noted, the Eastern Zone was consisted of ten provinces and direct-controlled municipalities in the period since Hainan remained a part of Guangdong till the year of 1988. In the relatively developed region in China, four out of eleven provinces in the Eastern Zone managed to produce much more than national average in terms of per capita industrial output at the time when the nation just accomplished its restoration after years of war. While the per capita industrial output of Tianjin was 1,112 percent of national average, Shanghai's percentage in 1952 was a more impressive 1,517; however, the superb performance of Shanghai and Tianjin was only partial picture of the Eastern Zone in the early 1950s. To be more precise, six of the ten provinces in the Eastern Zone failed to catch up with the national average, and Hebei produced only half of national average in 1952 equal to the average performance of interior provinces of the same time. This signifies the gap between the most and the least developed provinces within the Eastern Zone was already huge enough. By the end of late 1970s, the situation did not change much. With one more

province producing beyond national average, the productivity of the least developed province in the Eastern Zone stayed at merely half of national average.

The pattern of uneven development within the Eastern Zone persisted during the reform period. Table 6 tells the story of per capita GDP from 1978-95 both by region and province. Based on the table, the Eastern Zone ranked first measured by annual growth rate of per capita GDP in the period with its 9.8 percent compared to 8.0 of the Central and 7.9 of the Western; however, the performance of individual province in the Eastern Zone was not unanimously spectacular. While half of these provinces were enjoying a higher than 10 percent of annual growth, there were still four provinces failing to reach the average growth rate of the Western Zone. In this case, the image of the whole Eastern Zone being the symbol of developed region comes to question.

Table 6: Per Capita Gross Domestic Product by Province, 1978-95

Province/Year	1978	1990	1995	Annual growth rate 1978-90	Annual growth rate 1990-95
Average	359	1511	4792	7.6	14.5
EASTERN ZONE	462	1964	6777	7.9	14.5
Liaoning	663	2463	6847	6.7	9.4
Beijing	1289	4754	11741	7.1	9.2
Tianjin	1150	3582	9804	5.8	10
Hebei	364	1389	4444	6.5	13.2
Shandong	321	1599	5758	8.3	15.1
Jiangsu	430	1978	7319	9	16.8
Shanghai	2498	5700	17774	5.9	11.7
Zhejiang	329	1998	8185	10.7	18.4
Fujian	273	1551	6731	8.7	17.4
Guangdong	333	2263	7939	10.6	16.9
Hainan					
CENTRAL ZONE	310	1264	3691	7.1	10.3

Heilongjiang	559	1887	5465	5	6.8
Jilin	382	1587	4356	7.7	9.7
Inner Mongolia	310	1338	3666	7.2	8.4
Shanxi	365	1410	3569	6.1	8.4
Henan	232	1061	3313	8.3	11.4
Anhui	242	1089	3348	8.4	12.5
Hubei	332	1484	4162	7.6	11.2
Jiangxi	276	1118	2984	7.4	11.9
Hunan	286	1157	3445	7.5	8.9
Guangxi	223	922	3535	5.2	15
WESTERN ZONE	254	1078	2945	7.5	8.9
Xinjiang	316	1689	5069	8.9	9.6
Gansu	348	1058	2298	6.6	7.8
Ningxia	353	1321	3338	6.9	6.1
Shaanxi	294	1148	2859	7	7.9
Qinghai	426	1481	3437	4.7	6
Sichuan	238	1065	3136	7.8	10
Guizhou	175	790	1809	7.4	7
Yunnan	226	1073	3044	8.1	8.6
Tibet	375	1101	1908	5.9	7.8

Source: SSB; Wei, 2000.

Viewing from another aspect, foreign investment in great amounts has been allowed to enter China as a result of opening up from the early 1980s in order to boost economic development. In the beginning of reform period, the movement of foreign investment was largely limited to the Eastern Zone, but its pattern of distribution in the area was by no mean even. Table 5 displays the uneven distribution of foreign investment within the Eastern Zone in a comprehensive way. According to the information offered by the table, Guangdong as a single province in the Eastern Zone attracted nearly half of foreign investment entering China even after 6 years' of opening up. At the same time, there were five of the ten provinces in the Eastern Zone

respectively making use of less than 3 percent of the total foreign investment China utilized in 1985. In the following ten years, a more balanced pattern of foreign investment distribution gradually established in the Eastern Zone with Guangdong's percentage dropping to 28.45 and another two provinces individually taking up more than 10 percent of national total. Nonetheless, there were still six out of the eleven provinces not capable of introducing greater than 5 percent of foreign investment targeted at China in 1994.

6. An Overview of Policy Transformation

After having a look at the pattern of China development especially the pattern within the Eastern Zone, the changing pattern of variation in provincial development performance in specific period becomes clearer. Therefore, wonder emerges concerning the forces underlying trends observed in the pattern, questioning what they are and how they make changes happen. This section offers a brief overview on major policy transformation in China from 1949 since policy has long been regarded as a substantial contributor to China's regional disparities. Therefore, the overview prepares people for the comparison between China's pattern of development and its pattern of policy transformation to see whether the two are closely related.

There is a general agreement among scholars who study policy transformation in China to divide the time from 1949 to the current stage into at least three periods. Using Yang's analysis in "Patterns of China's Regional Development Strategy" as an example (1990), the three periods are the restoration period (1949-52), the Maoist development period (1954-1978), and the Post-Mao development period (1979-). As for the short period of 1949-52, it is regarded as a time of restoration and few important policies related to development were issued or implemented during the time. Therefore, it is justified to exclude the period from the discussion of policy transformation.

During the Maoist development period, data and analyses from a multitude of channels indicate that China's development strategy in the 1953-78 period differs greatly from that of the former and the latter period due to its particular emphasis on the equalization of economic development among regions, extensive rather than intensive modes of growth, and the absence of foreign investment during the time

(Yang, 1990; Yang, 1997). The fundamental belief underlying the strategy was that as a country had its faith in communism China should always give higher priority to equity for the purpose of legitimacy (Lyons, 1991). While the belief in equity remained relatively constant, several studies suggest that regional disparities in China experienced fluctuations in the period with gap between regions narrowing down between 1953-57 and in the early 1960s but widening during the Great Leap Forward (1958-60) and the Cultural Revolution (1966-76) (Lardy, 1980; Lyons, 1991) Wang and Hu (1999) points out that the main channel through which the central government pursued its regional plans during the Maoist period was interregional transfers of investment resources. According to Yang's analysis (1990), China's investment policies formulated by the central government during 1953-1978 were in nature interior-orientated; and this orientation was clearly indicated by a influential speech made by Chairman Mao on April, 1954 "On the Ten Great Relationship". His preference of equalizing development between the coastal area and the interior was revealed by comments such as "we did not laid enough stress on industry in the coastal area these years so that the productive power of coastal industry can be used to development the whole country" and "to build 90 per cent or perhaps still more heavy industry in the interior" (Mao, 1974).

Under the extensive influence of Soviet-model of development, China drafted its first FYP (1953-57) to boost development. During the period, over 900 industrial development projects were launched with 63.5 percent of them carried out in the interior and there were 156 key-point projects imported from the former Soviet Union worth more than 20.3 billion yuan (Li, 2000). Among 150 constructed projects, two-thirds of them were located in the Central Zone while eight coastal provinces received

no project from the FYP at all (Wei, 2000); however, this plan has been long regarded as a plan that only partially implemented since the decision on carrying out the plan was officially approved until 1955 (Bachman, 1990). Later, China's development was caught in the chaos of the Great Leap Forward from 1958 to 1962, but state investment in the interior on heavy industry continued to increase during the time with its percentage of national total coming to 59.4 and keeping its increase to 62.5 during 1963-65 (Wei, 2000).

At the same time, Sino-Soviet relation was worsening at a rapid speed, which greatly deteriorated China's strategic environment. This severe sense of insecurity urged China to concentrate its limited resources on defense-oriented industries in the interior to protect the country from foreign invasion. Provinces such as Sichuan, Hubei, Shaanxi, Henan, and Guizhou received 52.7 percent of the basic construction investment funds during the Third FYP (1966-70). There was a striking increase compared to what they used to receive, namely, 20.6 percent during 1953-57 and 36.9 during 1958-62 (Naughton, 1991). Compared to the total state investment during the Third FYP and fourth FYP (1971-75) as 274 billion yuan, interior provinces accounted for over 200 billion yuan (Kirkby and Cannon, 1989).

Entering the middle of the 1970s, domestic chaos created by the Cultural Revolution gradually died away and the Sino-US relation started to change in a positive direction. All these signs contributed to some newly emerged changes in national policies related to development in the 1970s. Though the emphasis of development was still heavy industry, intense efforts were made to develop heavy industry in the coastal area (Wei, 2000). Some well-known projects, such as Shengli oil fields in Shandong, were issued and implemented in the period. However, it is

widely accepted in academia that the uneven development pattern with treaty ports established since Qing dynasty as the leading development units had been transformed to a certain extent (Li, 2000).

Till nowadays, the debate over short-term as well as long-term effects of this equity at expense of efficiency approach applied in the Maoist development period has not reached a conclusive point. A summary of China's development problems under Mao includes (Wei, 2000):

- 1) over-centralized planning systems giving rise to unqualified planning and mismanagement;
- 2) overemphasis on national defense;
- 3) overemphasis on self-reliance;
- 4) overemphasis on equity than efficiency;
- 5) overemphasis on heavy industry than light industry and services.

On the grounds, at least two important lessons can be drawn from the period in order to shed light on future development (Yang, 1990). On the one hand, expanding industrial bases from place to place is an extremely time-consuming process filled with difficulties, and the recognition of hardship is of necessity before making any commitment to the expansion. On the other hand, great price has to be paid when the formulation of development strategy fails to take the basic idea of comparative advantage into consideration (Yang, 1990; Yang, 1997).

Following the death of Mao in 1976, a new central leadership organized around Deng Xiaoping gradually came into power. Since 1978, China walked into its reform period during which the top priority was devoted to efficiency rather than equity. China's development in this period was featured by a set of development policies

diverging from previous emphasis on equalization to a more favorable treatment on the coastal region over the interior. The Seventh FYP (1986-90) officially adopted the division of Eastern Zone, Central Zone, and Western Zone. What's more, both China's Sixth FYP (1981-85) and Seventh FYP recognized and emphasized the differences in economic development performance between regions and implications should be drawn for future development. Deng Xiaoping even criticized Maoist development strategy in person and he argued for an alternative to development with some people and regions getting rich first in order to provide demonstration effects for the rest to catch up (Deng, 1983). In essence, China's post-Mao development strategy was transformed from the interior-oriented and equity-oriented one into one characterized by coast-centered and efficiency-centered (Wang and Hu, 1999; Yang, 1990; Yang, 1997). Three reasons have been summarized by scholars accounting for this significant policy transformation in post-Mao development period, namely, lessons from the past, influence of Western theories, and experiences of developed countries (Fan, 1997).

In the reform period, a variety of policies were issued by the central government to stimulate development in a number of fields including state investment, foreign investment, fiscal system, and ownership system. Among these newly formulated policies, two specific policy areas were key to regional disparities in China, namely, the shift of the focus of state investment from the interior to the coastal area and the open door policy combined with preferential treatments targeted specially at the coastal area to introduce foreign investment (Wang and Hu, 1999).

Table 7 displays a comprehensible picture on the shift of state investment in capital construction in Maoist development period (1953-78) and post-Mao

development period (1979-1991) respectively. According to the table, the central government used to spend more than two-thirds of its construction budget on the development of the interior in Maoist development period; however, an evident shift from the interior to the coastal area took place since 1979 as the coastal provinces accounted for nearly 50 percent of total state investment in the period of 1979-91. While the percentage of the coastal area in national total enjoyed a surge of 13.23 percent from Maoist development period to post-Mao period, the percentage of the Central Zone and the Western Zone experienced a reduction of 4.94 and 7.33 respectively.

Table 7: State Investment in Capital Construction by Province, 1953-91
(in 100 million yuan)

Province/Year	1953-78	% of total	1979-91	% of total
Nation Total	6,216.26	100	13,957.34	100
Nonregional	564.7	9.95	1,069.07	7.66
EASTERN ZONE	2119.83	34.1	6579.06	47.15
Liaoning	418.94	6.74	839.09	6.01
Beijing	252.1	4.06	655.07	4.69
Tianjin	129.79	2.09	400.17	2.87
Hebei	277.47	4.46	615.84	4.41
Shandong	243.92	3.92	824.48	5.91
Jiangsu	180.51	2.90	624.73	4.48
Shanghai	186.38	3.00	846.13	6.06
Zhejiang	98.9	1.59	341.37	2.45
Fujian	91.48	1.47	370.6	2.66
Guangdong	240.34	3.87	1,061.58	7.61
Hainan				
CENTRAL ZONE	1,981.34	31.87	3,830.65	27.45
Heilongjiang	313.97	5.05	625.36	4.48
Jilin	171.58	2.76	286.4	2.05
Inner Mongolia	124.19	2	300.81	2.16
Shanxi	213.99	3.44	511.25	3.66

Henan	217.53	3.5	493.94	3.54
Anhui	165.49	2.66	338.89	2.43
Hubei	340.25	5.47	509.47	3.65
Jiangxi	118.52	1.91	221.57	1.59
Hunan	201.78	3.25	336.49	2.41
Guangxi	114.04	1.83	206.47	1.48
WESTERN ZONE	1,496.39	24.08	2,336.25	16.74
Xinjiang	126.84	2.04	339.3	2.43
Gansu	212.26	3.41	237.78	1.7
Ningxia	44.52	0.72	87.73	0.63
Shaanxi	236.05	3.8	348.2	2.49
Qinghai	73.35	1.18	150.01	1.07
Sichuan	464.88	7.48	701.51	5.03
Guizhou	150.89	2.43	176.93	1.27
Yunnan	174.15	2.8	242.08	1.73
Tibet	13.45	0.22	52.71	0.38

Source: Li, 1995; Wang and Hu, 1999.

More importantly, the central government decided to open up certain places in the Eastern Zone to attract foreign investment as another way to support development in China and a series of preferential treatments were granted to these places to accelerate the process. As for the characteristics of the open door policy, Yeh's study (2000) suggests that it is featured by gradualism concerning both places and sectors in which the policy was implemented. On the one hand, the flow of foreign investment was limited to the four Special Economic Zones (SEZs) at the beginning of opening up and then gradually extended to other Coastal Open Cities (COCs) as well as Economic and Technological Development Zones (ETDZs). On the other hand, investment with foreign sources was allowed to enter the manufacturing business at first and later came into other realms such as real estate and banks (Yeh, 2000). There are research on policy and foreign investment showing that policies aiming at

investment promotion have significant impacts on attracting FDI (Moran, 1999). As for the impact of FDI, it is in nature multifaceted. On the one hand, FDI plays an important role in investment as well as structural change. On the other hand, FDI introduces management experience and technology together with capital (Naughton, 2006).

Policies seeking to promote FDI concern about a wide range of issues such as “form and control of foreign ownership, project duration, choice of investment sectors, size of investment project, choice of investment location, tax rates, policies on land use, management, employment, wage systems, product pricing structures, and terms for financing and remittance of profits” (Wei, 2000). Previous studies on China have identified at least four types of preferential policies targeted specifically at the Eastern Zone (Fan, 1997):

- 1) larger amounts of state investment was received by the Eastern Zone in wide-ranging forms such as loans and subsidies. This has already been discussed in the pervious section;
- 2) different types of open cities and open zones were established mainly in the realm of Eastern Zone and they were allowed to enjoy various preferential treatments including tax reduction and more freedom in foreign exchange. As for Special Economic Zones (SEZs), four SEZs including Shenzhen, Zhuhai, Shantou, and Xiamen were established in 1979, with Xiamen located in Fujian province and the rest in Guangdong province. Later, Hainan Island was separated from Guangdong to become an individual province as well as the fifth SEZ in China. In 1990, preferential treatments were granted to Shanghai’s Pudong District, similar to those enjoyed by the SEZs.

The second type is Coastal Open Cities (COC), established through a decision made by the central government to open 14 cities along the coast for foreign investment. They are: Tianjin, Shanghai, Dalian (Liaoning Provinces), Qinhuangdao (Hebei Province), Yantai (Shandong Province), Qingdao (Shandong Province), Lianyungang (Jiangsu Province), Nantong (Jiangsu, Province), Ningbo (Zhejiang Province), Wenzhou (Zhejiang Province), Fuzhou (Fujian Province), Guangzhou (Guangdong Province), Zhanjiang (Guangdong Province), and Beihai (Guangxi Province). Among these COCs, Beihai is the only one located out of the realm of the Eastern Zone; however, a number of studies do put Guangxi Province into the category of the coastal area.

Besides, twelve Economic and Technological Development Zones (ETDZ) were established from 1984 to 1988 with an addition of eighteen setting up in 1992. All of these ETDZs except five are located in the Eastern Zone.

Between 1985 and 1988, five Coastal Economic Open Zones (CEOZ) were set up in the areas of Yangzi River, Pearl River, Yellow River deltas, southern Fujian, and the Liaodong Peninsula, covering nearly 260 cities and counties.

In the early 1990s, thirteen Customs-Free Zones (CFZ) were approved in Liaoning, Tianjin, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Hainan, and Guangdong, and all these provinces locate in the Eastern Zone. Table 8 summarizes and compares the preferential treatments received by each type of open cities and open zones with “R” standing for reduction and “E” for exemption;

- 3) greater fiscal freedom was granted to some coastal provinces;

- 4) greater freedom in a variety of financial activities such as currency circulation, loans, and private financial institutions was enjoyed by several coastal cities.

Table 8: Preferential Policies of Zones by Type

Type/Zone	Standard	SEZ	COC	ETDZ	CEOZ	CFZ
National income tax	30% (joint ventures)/20-40% (foreign)	15%	24%	15%	24%	
Local income tax	10%	R or E	R or E	R or E	R or E	
Industrial & commercial consolidated tax on exports		E	E	E	E	E
Industrial & commercial consolidated tax and custom duties on FDI's imported equipment		E	E	E	E	E
Industrial & commercial consolidated tax and custom duties on imports						E
Right to approve foreign investment		Greater	Some	Greater	Some	Greater
Right to retain and use foreign exchange earnings	25%	100%	50%			

Source: Kleinberg, 1990; Li, 1995; Wang and Hu, 1999.

A slight shift in policy orientation emerged in the Eighth FYP (1991-95). As the plan called for continued efforts in developing the coastal area, there was a concern about transforming the location-leading development into a more advanced industry-

leading one featured by selecting certain industries rather than places as favored choices of investment (Li, 2000). This concern was partly relieved by Deng's 1992 visit to the southern China, bringing confidence to the open door policy and a new wave of China's opening up.

According to Yang's analysis (1990), three sets of policies fundamental to development in the new age are: 1) laws designed to attract and regulate foreign investment were promulgated to open the gate for foreign investment into China; 2) four SEZs including Shenzhen, Zhuhai, Shantou, and Xiamen were established in 1979; 3) 14 coastal cities were chosen as open cities for foreign investment in 1984. Among these policies, the second and the third favor the Eastern Zone directly and exclusively since the four SEZs and 14 open cities all locate within the realm of the Eastern Zone (Yang, 1990; Yang, 1997). Even in a less obvious way, policies related to the first category also fuel the development of the Eastern Zone. While these policies provided the flow of foreign investment with legislative permission, the Eastern Zone benefited most from the process since they have already become the favorable destinations of foreign investment with the help of other policies.

The assumption behind the policy transformation has its root in the "ladder-step doctrine" claiming the process of development is in nature diffusive and although the three regions differ considerably in terms of their levels of development at one point the levels of development will eventually converge in future as long as there is a strategic focus on the development of the most advanced region, for this regional growth will act as the engine of growth for the whole country (Fan, 1997; Wang and Hu, 1999; Yang, 1990; Yang, 1997). This is the underlying logic of China's

development policy after 1978, but the positive as well as negative effects produced by it remain debatable.

This overview of China's policy transformation from 1949 to the reform period provides a general answer to questions such as what the changes were and how the policies influenced regional disparities; however, some more critical questions, why the policies changed and how they affected development variation within the Eastern Zone, remain unanswered. The next section responds to these doubts through a comparative case study on the development path of Guangdong and Shanghai from 1949 to the reform period in order to discover the role of policy in shaping their development performance and other possible contributors besides policy.

7. Case Study

Previous section puts forward a general description of the changing pattern of China's development policy since 1949 and examines it together with the pattern of China's regional development of the same period to reveal how influential policy is in shaping development performance. Evidently, regional development performance changed with the pattern of development policy in the period of observation. To be more accurate, the interior developed in a more rapid speed in the Maoist development period than the coastal area did since it was the focus of development policy; however, its speed of development slowed down significantly in the reform period as the central government shifted its priority of development back to the coastal area featured by a series of actions to promote the open door policy.

As a rule, the whole coastal region is perceived as the beneficiary of China's policy shift in the reform period, though it is in fact not the case for development

within the coastal area cannot be regarded as homogenous. This section conducts a comparative case study on the development performance of two leading coastal provinces in China, Guangdong and Shanghai, to reveal the existence of development disparities and policy differences within the Eastern Zone while more efforts are made to discover the underlying mechanism contributing to development disparities between the two.

Look again at Table 1 with special attention paid to development performance of Guangdong and Shanghai. In 1952 when China just recovered from the devastation brought by years of wars, Guangdong's development performance did not even reach the level national average in terms of per capita industrial output while Shanghai had already been able to produce 15 times more than the national average. It was rather obvious that Guangdong and Shanghai were not standing on the same starting point in the initiative stage of China's development and the gap between them was already vast enough. Several other provinces such as Tianjin, Beijing, Heilongjiang, and Jilin, outperformed Guangdong to an impressive extent, and all of these provinces including Shanghai were once China's traditional industrial bases before 1949. During the 1960s and 1970s, both Guangdong and Shanghai experienced a series of fluctuations on their way of development. As great amounts of state investment was spent on heavy industry in support of national development during the period, most of the money went to the interior and the limited portion targeted at the coastal area could work only in a restricted way under the negative influence of the Great Leap Forward and the Cultural Revolution. As it comes to 1979 when China was about to launch the reform, the status of Guangdong and Shanghai remained unchanged in a relative term measured by their per capita industrial output with Guangdong's percentage of

national average dropping to 79 and Shanghai's amount down to 11 times of national average.

Dramatic changes took place in the reform period, which also reflected on the development performance of Guangdong and Shanghai during the time. Table 6 records provincial development performance in China from 1978 to 1995 measured by per capita gross domestic product. The data reconfirms the huge gap between Guangdong and Shanghai in terms of development at the beginning of reform period, since Guangdong's per capita GDP in 1978 was 333 yuan while the amount for Shanghai in the same year was 2,498 yuan which was more than seven times greater than Guangdong's. This situation changed considerably in the 1980s with Guangdong's per capita GDP rose to 2,263 yuan and Shanghai's figure went up to 5,700 in 1990. Viewing these figures in absolute term only proves the enduring existence of development disparities between Guangdong and Shanghai; however, having a look at their annual growth rate serves as another perspective into this comparison. As Guangdong kept its annual growth rate of per capita GDP higher than the average at 10.6 percent from 1978 to 1990, the rate of Shanghai was 5.9 percent. For more than ten years, Guangdong had been developed in a speed much faster than Shanghai did, which signifies the gap of development performance between the two was in a process of narrowing down.

In the period of 1990 and 1995, the rapid development of Guangdong and Shanghai proceeded, as the per capita GDP of Shanghai grew three times higher from 5,700 to 17,774 and Guangdong's figure increased more than three times. An examination on their annual growth rate in the period reveals that the gap of development between the two provinces was narrowing down at a slower speed

compared to the tendency in the 1980s, though their growth rate both maintained a trend of going up. To be more precise, the annual growth rate of Guangdong in the period of 1990-95 rose from 10.6 to 16.9, while the figure of Shanghai went up to 11.7 from 5.9. Clearly, signs point out that Shanghai has started its catch-up in the 1990s.

As two leading provinces in terms of development performance in China's Eastern Zone, Guangdong and Shanghai went through different patterns of development from 1949 to the end of 20th century. It is reasonable to wonder about what factors might contribute to these differences in their development paths while their coastal location in the Eastern Zone has already held one critical factor, geographical conditions, relatively constant. The following section provides a summary of the similarities and differences between Guangdong and Shanghai as well as an analysis of the underlying mechanism giving rise to variation in development performance between the two provinces.

Speaking of similarities, Guangdong is similar to Shanghai in a variety of essential fields including geographical conditions and history. To start with, both provinces are located in China's Eastern Zone along the southeastern coastline, which endows them with favorable conditions for agricultural activities and transportation fundamental to development in the initial stage. Besides, Guangzhou, the capital of Guangdong Province, and Shanghai, were two of the five earliest open ports in China according to the Nanjing Treaty that required the Chinese government to open some of its coastal ports for colonial powers to run business and develop industrial foundation.

Though similarities mentioned above are indeed essential to the development of Guangdong and Shanghai, vital differences in geographical conditions as well as history exist at the same time leading to the discrepancies in their development paths. At first, there is a principal difference in the area of Guangdong and Shanghai. As for Guangdong, it covers nearly 177,900 sq.km. of the southeastern China compared to the area of Shanghai as only 6,341 sq.km.. Bigger area brings with itself benefits as well problems concerning development.

Second, their surroundings differ to some extent. Located in the southeastern part of China, the neighboring provinces of Guangdong are Jiangxi, Guangxi, and Hainan; and none of them was capable of acting as the competitor of Guangdong in terms of development. More importantly, Guangdong is close to Hong Kong and Macau in terms of location, language, and culture. Regarding Shanghai, it is surrounded by Jiangsu and Zhejiang, two of China's fastest developing provinces in the reform period, and the distance between Shanghai and Taiwan is relatively far compared to the distance between Fujian Province and Taiwan.

Third, their distance from China's capital varies to a great extent. Compared to Shanghai, Guangdong is far distant from Beijing. In history, Guangdong had long been regarded as the remote area in China and it was known as the place to banish people who committed serious crimes in the ancient times. In the contemporary age, Guangdong is no longer isolated from China's central area as it used to be with the help of transformation and technology, but some side effects linger. In comparison, Shanghai has always been within the center of China and it has received persisted special attention from the central government. Of course, part of the attention results from the status of Shanghai as one of most important commercial and industrial

centers in China; yet this kind of status does not come from nowhere and it to a certain extent can be attributed to Shanghai's geographical conditions. As a coastal port in China, Shanghai had more accesses to outside world since the old days and this advantage was intensified by The Nanjing Treaty which introduced information, advanced technology as well as foreign investment to Shanghai to boost its development in Qing Dynasty. If Shanghai were a province situated in the interior rather than the coastal area, the status that it currently owns would be enjoyed by some other provinces along the coastline.

However, it is unreasonable to conclude that each province in China is likely to copy Shanghai's development path as long as it has the geographical conditions similar to that of Shanghai, for huge variation in development performance still existed between Shanghai and Guangdong in the early 1950s even though considerable similarities in geographical conditions and history were shared by the two provinces. In this case, analysis on development disparities between Guangdong and Shanghai should take another force into consideration together with their differences in geographical conditions summarized above.

Starting from the early 1950s when China initiated its industrial development, Guangdong's development performance measured by per capita industrial output had been left far behind by Shanghai, and this could be interpreted as a consequence of the interaction of geographical conditions and policy in the previous stage. Located in China's Eastern Zone along the coastline, Guangdong and Shanghai had more chances to connect with the outside world even when the Qing Dynasty practiced the closed-door policy. Based on their coastal advantage, Guangzhou (the capital of Guangdong Province) and Shanghai were selected as two of the five coastal ports

open to colonial powers; yet, while industrial foundation was gradually established in Shanghai in the period of colonial control, the same thing did not happen to Guangzhou. On the one hand, not far away from Beijing, Shanghai was situated within the realm of China's central area, endowing it with more accesses to resources as well as the domestic market essential for industrial development. On the other hand, Guangdong failed to establish its industrial base in the period since favorable conditions for Shanghai's industrial development were absent in Guangdong and its development process was stuck at the level of running business with foreign countries.

Additionally, the area of Guangdong was significantly larger than that of Shanghai, which widened the gap between the two provinces indirectly. At that time, Guangzhou as the provincial capital was the only coastal port open to the outside world in Guangdong while the entire Shanghai was an open port. It was inevitable that Guangdong's development performance was brought down by other backward areas in the province. Therefore, Guangdong's pattern of uneven development with Guangzhou being the only open port exerted negative influence on its overall development performance. Broadly speaking, development disparities between Guangdong and Shanghai observed in the early 1950s are resulted from the interaction of their differences in geographical conditions and the policy to open China's coastal ports in The Nanjing Treaty.

In the Maoist development period, the focus of development stayed mostly in the interior and both Guangdong and Shanghai received limited attention from the central government. Moreover, Shanghai as the most developed province in the period was required to contribute more to China's development through the channel of handing in certain portion of its revenue. According to policy on provincial revenue in the period,

Shanghai could only retain 20 percent of its total revenue in the 1950s while the poorest provinces in the Western Zone were allowed to keep all of their revenue while receiving great amounts of state investment and subsidies (Yang, 1997). Moreover, the percentage of retaining for Shanghai went on declining to merely 10 percent in the 1960s and early 1970s (Yang, 1997). Reduction in the amount of state investment together with an increase of revenue contribution played a crucial part in hindering Shanghai's development in Maoist period.

As for Guangdong, the situation differed, as it was not required to hand in a large portion of its revenue and it tended to receive less state investment than Shanghai did in Maoist development period. This can be accounted by Guangdong's status in national development, which was under the influence of the interplay of its own geographical conditions and national policy in the previous stage. On the whole, not being the most developed province in the Eastern Zone, Guangdong was relieved from the pressure of contributing large amounts of its revenue to the central government as well as the less developed provinces but it also missed the chance of receiving state investment targeted at the Eastern Zone to foster its development. Consequently, Guangdong's development performance remained largely inactive during the time.

Entering the reform period, the development pattern of Guangdong and Shanghai changed together with the transformation of development policy in the phase. Again, the growth brought by reform was not equally shared by Guangdong and Shanghai. To be noted, discussion on development policy of the post-Mao development period should take foreign investment into consideration along with state investment. Naughton (2006) summarizes that foreign investment in China in the reform period

was featured by a substantial portion flowing into manufacturing industry rather than service or resources extraction, and its Asian origins. Concerning the open door policy that set up four SEZs in Guangdong and Fujian, the focus of national development shifted from the interior back to the coastal area and within the coastal area the previous emphasis on those traditional industrial bases, such as Shanghai and Tianjin, was replaced by the newly emerged commercial centers including Shenzhen, Zhuhai, Shantou, and Xiamen. Later, fourteen COCs including Shanghai and two cities of Guangdong were established in 1984 but Deng announced in June 1985 that foreign investment into China should concentrate in four of the biggest COCs instead of the previously assigned fourteen, namely, Shanghai, Tianjin, Dalian (Liaoning Province), Guangzhou (Guangdong Province).

By 1985, Shanghai had joined the trend of opening up and it seemed that Shanghai had established its significance among the opening area; however, there were some fundamental differences between SEZs and COCs and one of them is that COCs were not granted the same amount of investment in infrastructure development by the central government as the SEZs were (Yeh, 2000). Therefore, investment gap existed between Shanghai and Guangdong in the 1980s even after Shanghai became one of the major COCs, which to some extent affected their development performance.

With the assistance of opening up policy and a series of preferential treatments targeted at the open regions, Guangdong experienced tremendous growth in the 1980s while Shanghai's development reached its stagnation. Along with another two traditional industrial bases, Beijing and Tianjin, Shanghai was among the group of the slowest growing provinces in the period of 1978-91 and its annual growth rate of per

capita national income as 5.5 percent was even below the national average at 7.0 percent (Wei, 2000).

Looking at the surface, it is easy to reach the conclusion that development policy alone played the vital part in shaping the development disparities between Guangdong and Shanghai in the period; yet, this conclusion remained largely incomplete without digging into the underlying concerns behind the process of policy formulation. As claimed by Li Chelan (1997), the critical difference in national status of Guangdong and Shanghai was the major concern behind the opening up policy. Geographically, Guangdong was a relatively peripheral province in the Eastern Zone measured by its distance from the capital and it was economically less important than Shanghai for it contributed to merely 2.7 percent of the national fiscal revenue in the period of 1953-80. In comparison, Shanghai was the largest industrial and commercial center in China accounting for more than 14 percent of the total fiscal revenue in the same period (Li, 1997). On the side of policy, the SEZs shared similarities with the Export Processing Zones (EPZs) spread in Eastern Asia earlier in terms of offering reduction as well as exemption on tax and administrative procedures to foreign investment, but the former differed fundamentally from the latter since they functioned as test beds for China's ongoing economic reform as well.

On the grounds, it is theoretically somewhat harmless to initiate the reform from a province like Guangdong rather than Shanghai, since the consequences of possible failure in the process of reform tended to be less serious. In practice, Guangdong was chosen as the province to conduct the reform experiment starting from opening up three cities to foreign investment, while Shanghai had to step back from this experiment in the early 1980s as it was regarded as too important to take any risk (Li,

1997). Except for its importance, Shanghai was not as appropriate as Guangdong to become the first place of opening up as well. Not as critical as Shanghai in terms of national status, Guangdong had a relatively smaller state sector than Shanghai had in the 1980s, rendering it to cope with changes emerged in the process of opening up in a more flexible as well as adaptable way (Li, 1997). Furthermore, the predominance of light industry in Guangdong's industrial structure fitted it better into the national export strategy in the reform period while heavy industry still gained supremacy in Shanghai's industrial structure during the time.

Last, one important aspect of Guangdong's geographical conditions started to get deeply involved in the process of policy formulation, namely, its geographical proximity to Hong Kong and Macau. Concerning incentives behind the setting up of four SEZs in the early stage of reform, Vogel's analysis (1990) shows that there were political concerns behind these choices. According to Vogel (1990), with three of four SEZs situated in Guangdong, the central government looked forward to exerting positive impacts on the return of Hong Kong and Macau through opening up since the SEZs would not only learn a lot from Hong Kong and Macau but also help build up their confidence in the future after returning to the Mainland. In addition, Hong Kong and Macau had the potential to become the major sources of FDI and Guangdong advantaged by its location was more likely to make good use of the chance (Wei, 2000). To sum up, Leung (1993) suggests that geographical proximity, kinship ties, and personal contacts are all essential elements shaping the destinations of foreign investment. Obviously, all of them are closely related to geographical conditions of certain place, and the choice of first four SEZs took these elements into serious consideration.

It turned out that the pattern of foreign investment in China in the reform period followed exactly the direction these elements pointed to. During the period of 1979-85, a total 27 billion dollar foreign capital flowed into China with nearly 72 percent in form of external loans and 28 percent as direct investment (Phillips and Yeh, 1990). On the subject of direct investment, Hong Kong was ranked as the leading contributor with Japan, Taiwan, and the U.S. coming after it (Yeh, 2000). While most of the investment with Southeast Asian sources flowed into Guangdong and Fujian, over 50 percent of investment from North America and Europe targeted at large metropolises such as Beijing, Shanghai, and Tianjin to take advantage of their advanced infrastructure as well as industrial facilities (Yeh, 2000).

Thus, it is proper to perceive the concerns behind opening up Guangdong rather than Shanghai as the first step in China's reform period as a result molded by a comparison between Guangdong and Shanghai in terms of geographical conditions and national status, and by the previous interaction between the two aspects. As stated in Wei's explanation (2000), the slowdown of Shanghai's development in the 1980s was closely tied to the reduction of state-subsidized materials crucial to industrial development, the strict control of provincial revenue, the dominance of state-own enterprises concentrated on heavy industry, and its slow participation in the process of opening up. Generally speaking, these four factors are in nature deeply connected with the national status of Shanghai and all of them can be perceived as a result of the interaction of Shanghai's geographical conditions and policy in the previous stage. Overall, the development performance of Guangdong and Shanghai in the 1980s should be viewed as an outcome shaped mutually by several aspects of their geographical conditions and national policy in the former stage.

Eventually, the recession of these traditional industrial bases caught the attention of the central government and policies targeted at their recovery were gradually carried out from the early 1990s. Most important of all, Shanghai's Pudong District became the new focus of opening up and it was allowed to enjoy preferential treatments similar to the SEZs in 1990 as an attempt to foster foreign exchange in Shanghai. However, the Tiananmen incident in 1989 exerted considerably detrimental influence on foreign investment flowing into China and the situation moderately resumed to normal in years, which to some extent impeded Shanghai's recovery in the initiative stage. Fortunately, Shanghai managed to overcome these difficulties and the amount of FDI flowing into Shanghai in 1996 was 3.9 billion yuan, ranking it only after Guangdong, Jiangsu, and Fujian in terms of bringing in foreign investment. Shanghai's increasingly active engagement in opening up can also be indicated by its annual incoming FDI/GDP ratio which averaged 9 percent in the period of 1993-2003. Though the portion was lower than Guangdong's 13 percent and Fujian's 11 percent, it was higher than Beijing's 7 percent (Naughton, 2006).

While preferential treatments helped Shanghai catch up in terms of introducing foreign investment, there were other policies aiming at the increase of state investment in Shanghai to assist its recovery. As for fixed asset investment in Shanghai, there was a drastic increase from 35.7 billion yuan to 160.2 billion yuan between 1992 and 1995 with an annual growth of 64.9 percent significantly higher than the national average as 35.6 percent (Wei, 2000). Therefore, Shanghai's development performance in the 1990s improved in an impressive manner and its growth rate of GDP finally managed to surpass the national average of the period (Wei, 2000).

On the other hand, Guangdong's development performance in the 1990s experienced continued growth yet its growth rate was in the course of a gradual slowdown in face of a growing number of competitors in the realm of attracting foreign investment, since records show that preferential treatments concerning the promotion of foreign investment had been granted to more than 100 cities by 2003 (Naughton, 2006). Strong competitors include Shanghai, Jiangsu, and Zhejiang, for coastal cities in these provinces were selected to establish open regions enjoying different kinds of preferential treatments to attract foreign investment after the experiment on SEZs was proved to be largely successful. Table 9 displays the distribution of the main sources of foreign investment in Shenzhen and Shanghai in 1993. This pattern differed considerably from what it was in the 1980s. Though the general trend of Shenzhen dominating investment with Asian origins remained, Shanghai had grown into a more preferred choice of North American as well as European investment.

Table 9: Distribution of the Major Source of Foreign Investment in Shenzhen and Shanghai in 1993 (in million US\$)

Foreign investment/Cities	Shenzhen	Shanghai	National
Hong Kong & Macau	64.60%	41.90%	50.10%
Japan	14.50%	7.60%	12.60%
Taiwan	3.20%	4.10%	8.10%
Total Asian Countries	84.30%	57.1	74.10%
United States	10.10%	26.50%	6.80%
Britain	0.00%	1.90%	1.50%
Canada	0.30%	1.80%	0.90%
Germany	0.00%	2.20%	0.70%
Total European Countries	12.80%	33.30%	12.40%
Others	2.90%	9.60%	13.50%
Total	100%	100%	100%

Total Investment	1,432.20	2,317.62	3,895,972
% of National Total	3.70%	5.90%	100%

Source: Shanghai Statistical Yearbook; Shenzhen Statistical Yearbook; Yeh, 2000.

More importantly, the scale of foreign investment in Shenzhen tended to be small since most investors from Hong Kong were concerned about taking advantage of the cheap labor in Shenzhen to do outward processing from Hong Kong (Naughton, 2006). On the contrary, foreign investment flowing into Shanghai was relatively larger in scale in order to compete in some newly opened sectors. For example, the market of real estate was selectively opened for foreign investment since 1992 and it was from this point that foreign investment started to be attracted by the size of Chinese market (Naughton, 2006). Table 10 presents the distribution of foreign investment by sector in Shenzhen and Shanghai in 1993, which proves that foreign investment of different origins has different preferences for sectors of investment as well.

Table 10: Distribution of Foreign Investment by Sector in Shenzhen and Shanghai in 1993 (in million US\$)

Foreign investment/Cities	Shenzhen	Shanghai	National
Agriculture	0.10%	0.10%	2.10%
Industry	58.80%	34.00%	43.80%
Geological Investment	0.10%	0.00%	0.10%
Construction	0.70%	1.50%	3.10%
Transportation	7.50%	0.60%	3.20%
Commerce	9.80%	6.20%	3.70%
Real Estate	15.60%	45.80%	36.10%
Health	0.20%	0.00%	0.40%
Education	0.60%	0.00%	0.40%
Scientific Research	0.00%	0.00%	0.50%

Finance	0.40%	0.00%	0.20%
Others	6.20%	11.80%	6.40%
Total	100.00%	100.00%	100.00%

Source: Shanghai Statistical Yearbook; Shenzhen Statistical Yearbook; Yeh, 2000.

By and large, development disparities between Guangdong and Shanghai were in a process of moderation in the 1990s as the growth of Guangdong measured by per capita GDP kept in a higher rate than the rate of Shanghai; yet the gap in their growth rate was not as impressive as it once was in the 1980s, which indicates a slowing down tendency in Guangdong's catch-up with Shanghai in terms of development performance. In essence, these newly emerged changes in the development patterns of Guangdong and Shanghai were again under the influence of the interaction of their geographical conditions and national policy. As for Shanghai, one obvious force underlying its recovery in the 1990s was the policy issued by the central government to open up Shanghai's Pudong District in 1990, which offered tremendous help in both foreign investment and state investment. A deeper analysis reveals that the concern behind this policy was a constant attention on Shanghai's status as one of the largest commercial and industrial center in China that cannot be easily replaced by other emerging provinces, and this was after all resulted from the interaction of Shanghai's geographical conditions and national policy in the previous period. With regard to Guangdong, its continuing rise with slower growth rate in the 1990s can be explained as an indirect consequence of the implementation of policies aiming mainly at improving development performance of other coastal provinces such as Shanghai.

To sum up, it is the interplay of geographical conditions and policy that shaped the development performance of Guangdong and Shanghai from 1949 to the end of 20th century, yet the crucial role might be played by different aspects of geographical conditions in different periods and the degree of their influence varied from time to time as well.

8. Policy Implications

After having a thorough understanding of the pattern of uneven development within China's Eastern Zone and the underlying mechanism, the urgent question emerges as how to deal with the existing uneven pattern. Before actually confronting inequality in reality, the ultimate step in preparation is to have a clear understanding of the goals that the forthcoming policies aim to achieve. Among possible goals, the most fundamental one concerns about the degree of equality we would like to pursue in China or in China's Eastern Zone.

A number of literature have made attempts to answer this question and varied preferences for equality are suggested to be divided into four broad categories (Wei, 2000). First, the minimax criterion aims to minimize the quantity of the maximum. The criterion is proposed by Robert Nozick in *Anarchy, State, and Utopia* as a way to make the important decision between the state and anarchy. According to Nozick, for a group of cautious people choosing the state can only be reasonably justified in the situation that compared to the worst scenario brought by anarchy the worst type state is proved to be better (Nozick, 1974); however, Nozick is not totally on the side of this choice for he finds it not convincing enough as the choice based on the comparison between the state and the most favorable anarchy (Nozick, 1974). When applying to policy to cope with inequality, this preference requires a comparison between the worst outcomes of equality and inequality to make sure that inequality can only be tolerated when it gives rise to more benefits than equality at its worst does.

Second, the maximin criterion seeks to maximize the minimum measured by quantity as well. This criterion draws inspirations from Rawls' two principles of justice proposed in *A Theory of Justice* in which Rawls bases his reasoning on the

maximin rule to rank alternatives of distribution according to their worst possible outcomes and to guide the choice of an alternative bringing less possible harm than others (Rawls, 1971). The Rawlsian two principles of justice emphasize equality mainly in form of the assignment of basic rights as well as duties while inequalities can to some extent be justified by benefiting everyone in the society especially for the least advantaged (Rawls, 1971). In terms of policy implementation, this preference asks for significant improvement on the side of the poorest.

Third, the ratio criterion lays its emphasis on the proportion of the rich and the poor in society. Adapting this preference means the focus of policy should be on reducing the income ratio of the rich and the poor.

Fourth, the least-difference criterion pays attention to the absolute income differences. As a policy goal, it plans to reduce the absolute income gap between the rich and the poor. Choice needs to be made among these criteria but it is unnecessary for the choice to be permanent since room should be allowed for adjustments depending on policy outcomes after implementation.

When specific standard of equality has been chosen, attention should be shifted to the actual process of coping with the uneven development pattern. The interaction of geographical conditions and policy analyzed in detail by this paper in the previous section sheds light on policy formulation concerning uneven development between regions. For long, geographical conditions of specific place tend to be regarded as constant in the process of development. Even though these conditions are to a certain extent determinant to development performance, few attempts had been made to moderate geographical conditions to foster development. The interaction between geographical conditions and policy indicates an indirect channel through which the

impact of geographical conditions on development performance could be altered to different directions. For example, a location in China's coastal area usually stands for a series of favorable conditions for agriculture, transportation, and information; however, in a period when policies that forbid foreign investment and emphasize on development of the interior are in place, the coastal location brings no significant advantage. In another instance, a location close to sources of oversea investment benefits a place limitedly at the time when the central government practices the closed door policy. Moreover, this kind of location is likely to bring special attention to check possible connections between this specific province and its neighboring countries, which might exert harmful influence on provincial development. This outcome is indeed contradictory to the primary prediction.

Meanwhile, this paper also indicates another channel for geographical conditions to direct policy implementation. Using China's open door policy as an example, Guangdong's distance from the center of China and its closeness to Hong Kong and Macau render it a better starting point of opening up than Shanghai. Therefore, policy formulation in future should take geographical conditions into more serious consideration since policy is capable of turning specific aspect of geographical conditions from disadvantage to advantage and geographical conditions also have important bearings on policy outcome.

9. Conclusion

Considerable attempts have been made by previous studies to learn about the trend as well as the mechanism of uneven development in China. Forces underlying the changing trend such as geographical conditions, policy, market, and globalization have been identified and analyzed in detail. In comparison, this study narrows down its focus of analysis from China as a whole to its Eastern Zone specifically to dig into how the interaction between geographical conditions and policy brings about variation in development performance between provinces of China's Eastern Zone.

This paper in the first place presents an overview of development performance in China as well as in the Eastern Zone from 1949 to the end of 20th century and another overview of China's policy transformation. Altogether, a comparison between the patterns of development performance and policy transformation is construct to see whether there is connection between the policy a place receive and the change in its development performance. Furthermore, a comparative case study on the development patterns of Shanghai and Guangdong during the time is conducted as an attempt to studying the underlying mechanism of variation in development performance in China's Eastern Zone.

Through the comparison between the pattern of development performance and the pattern of policy transformation, this study finds that development as well as policy advantages are not evenly shared between China's three regions and they are not evenly shared within the China's Eastern Zone. Furthermore, the comparison shows that a region or a province tends to have better development performance when it enjoys preferential treatments brought by policy.

The comparative case study on the development patterns of Guangdong and Shanghai from 1949 to the end of 20th century displays that development performance of Guangdong and Shanghai during the time is under the constant shaping force if the interaction between some aspects of geographical conditions and policy issued by the central government. In the restoration period, the gap between Guangdong and Shanghai in terms of development performance was already huge enough and this is interpreted as a consequence of the interaction of the policy of being treaty port and their geographical differences in the distance to national capital as well as in area. During the Maoist development period, their relative unchanged development patterns are understood as a result from the interaction between the national development policy emphasizing the construction of heavy industry in the interior, the fiscal policy, and the national status of Guangdong and Shanghai. As for the national status of Guangdong and Shanghai, it is in nature molded by the interaction between geographical conditions and policy in the previous stage. Throughout the 1980s, the newly emerged variation in development performance of Guangdong and Shanghai comes from the interplay of the open door policy, their geographical differences in the distance to national capital as well as in surroundings, and their varied national status. Entering the 1990s, the change in Guangdong and Shanghai's development patterns stems from the interaction between the continuation of China's opening up process, their geographical differences in surroundings, and their different national status.

This paper also suggests implications for China's policy making in future. First of all, the shift of China's development emphasis between equality and efficiency throughout the time inspires a deeper thinking concerning the ideal level of equality as policy goal. There are a variety of criteria on equality available for policy makers

and the Chinese experience indicates that the essential task here is to maintain a proper balance between the preferred level of equality and efficiency. If not, it is more likely that development disparities are to take place bringing about adverse impacts on sustainable development in the long term.

More importantly, this paper reminds that the interaction between aspects of geographical conditions and policy exists and it plays a substantial part in shaping development disparities within China's Eastern Zone. For this reason, policy makers should firstly take geographical conditions into serious consideration when formulating policy since in the process of policy implementation aspects of geographical conditions tend to interact with policy and then exert influence on policy outcomes. Without proper consideration on specific geographical conditions, policy outcomes opposite to expectation are likely to emerge. Moreover, the role of policy should never be underestimated. Policy makers should not take for granted that it is the geographical conditions that determine the level as well as the pattern of development of certain place, since policies carefully adapted to the geographical conditions of a place have been proved to be powerful in shaping its development performance.

In general, the issue of uneven development is of great importance not only for China as a whole and its relatively more developed Eastern Zone. More attention from both the government and the academia is required to confront the trend of increasing inequality in China and its Eastern Zone. The first step to deal with the existing uneven development pattern is to have a clear understanding of what current situation of inequality is, and how it comes about. Thus, efforts can be made to set up a criterion concerning the degree of equality people prefer as well as to formulate a

series of policies to assist the pursuing of this criterion. This paper offers insightful inspirations in all these aspects. In short, the role of development policy in shaping development performance cannot be underestimated for it not only guides development directly but also has a considerable effect on factors closely related to development such as geographical conditions, through which an indirect channel between policy and development performance comes into being; however, development policy is never the only determinant to development performance since its degree of influence is under constant check of other factors such as geographical conditions.

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