

Disparities in Regional Development and Macro-Economic Management in China

Hu Naiwu and Wei Wei

I. Introduction

When discussing macro-economic management in China, one cannot ignore the harsh reality of uneven development in the regional economies. Any aim, task, principle or policy of macro-economic management must be formulated on the basis of narrowing this gap between regions. This is a particular requirement for macro-economic management based on China's special national conditions.

Per capita national income is the index most frequently used to gauge the level of economic development of a country or region. The per capita national income of the regions between the years 1952 and 1991 is shown in the following table:

Changing Trends in Disparities in Per Capita Income in Different Regions

1.	2.	3.		4.		5.		6.	
		I	II	GINI	CV	GINI	CV	GINI	CV
1952	177	1.93		0.381848	0.6107	0.26048	0.541839		
1966	363.74	1.96		0.394768	0.7410	0.19589	0.384977		
1978	792.29	2.83		0.353468	0.9973	0.22279	0.477078		
1979	805.14	2.73		0.348677	0.9596	0.21901	0.472684		
1980	841.88	2.72	2.79	0.347708	0.9433	0.23481	0.523840	0.13696	0.2764
1981	812.53	2.53	2.80	0.329124	0.8942	0.22548	0.501981	0.13306	0.2596
1982	816.81	2.39	3.04	0.313255	0.8298	0.21588	0.470575	0.13435	0.2648
1983	864.46	2.33	2.64	0.309467	0.7876	0.21025	0.447982	0.13987	0.2665
1984	913.74	2.20	3.55	0.299019	0.7443	0.24400	0.515701	0.15460	0.3106
1985	1,009.81	2.17	3.16	0.299781	0.7441	0.25910	0.585589	0.15245	0.3132
1986	1,026.37	2.08	3.48	0.295118	0.7092	0.26010	0.601311	0.17934	0.3553
1987	1,063.53	1.99	3.58	0.293405	0.6833	0.25955	0.581115	0.18084	0.3627
1988	1,118.74	1.91	3.83	0.287051	0.6587	0.27837	0.615601	0.18774	0.3790
1989	1,083.82	1.81	3.77	0.275204	0.6191	0.25737	0.582579	0.19438	0.3936
1990	1,087.75	1.75	4.17	0.268364	0.6078	0.24499	0.54280	0.19695	0.4081
1991	1,155.84	1.75		0.275738	0.6168				

1. Year
2. Absolute disparity (RMB)¹
3. Relative disparity I²
Relative disparity II³
4. Comprehensive disparity I⁴
5. Comprehensive disparity II⁵
6. Comprehensive disparity III⁶

Source: *Collected Historical Statistical Data from the Provinces, Autonomous Regions and Municipalities Directly Under the Central Government (1949-1989)*; and *China Statistics Yearbook (1991, 1992 and 1993)*, published by Zhongguo Tongji Chubanshe.

Notes:

1. Absolute disparity: The per capita national incomes of the first five regions minus that of the last five regions per annum, calculated at a constant value.
2. Relative disparity: The rate of absolute disparity to the average per capita income at the national level, i.e.,

$$\frac{X_{\max} - X_{\min}}{\bar{X}}$$

Herein, X = regional per capita national income, \bar{X} = the average per capita national income.

3 & 6. The information in Zhang Ping's article "Income Distribution in Different Regions in Rural China," (*Jingji yanjiu*, 1992, no. 2) has been consulted.

4. Comprehensive disparity I is calculated on the basis of each region's per capita national income, GINI is the GINI coefficient, CV is the Coefficient of Variation.

5. Comprehensive disparity II is calculated on the basis of the amount of each region's per capita national income used. (Refer to Zhang Shuguang, "Another Interpretation of the Changing Disparities in Regional Economies," (*Jingji yanjiu*, 1993, no. 9).

The above table reveals the following:

1. The absolute disparities between regions are increasing year by year. The per capita national incomes of the first and the last five regions for each year at a constant value have been used in order to eliminate the effect of factors such as too small an area or population, and price fluctuations.

2. There was a tendency for the GINI and CV to decrease between 1952 and 1978, and to expand between 1979 and 1990. This reflects the fact that the uneven development between the regions increased during the latter period.

3. The most typical regional disparities are those between rural incomes in the different regions.

However, the problem does not stop here. The Department for Regional Affairs under the State Planning Commission has forecast that "in the foreseeable future, the disparities will not disappear"; and "according to traditional forecasts, the disparities will tend to expand by the year 2000. When the regions grow at the same speed, disparities are bound to increase. The gap between absolute per capita incomes will continue to grow within a certain period even if the underdeveloped regions develop at a rate two percentage points higher than that of the developed regions."

It is therefore obvious that disparities in regional economic development are and will remain a major problem in China's economic life.

II. The Impact of Disparities in Regional Economic Development on Macro-Economic Operation

The impact of disparities in regional economic development on macro-economic operation is two-fold. On the one hand, when disparities between the regions are at an appropriate level, they will have a positive effect on macro-economic operation; but on the other, when the disparities are too great, negative influences on macro-economic operation become obvious.

1. The regions should be the subject of China's macro-economic analysis.

Strictly speaking, disparities in regional economic development that are too great may have a potentially negative effect on macro-economic operation. For example, in a society with a highly centralized and monopolized economy, regional disparities, although great, do not generally pose a threat to the actual economy or social life. Only when sudden, unforeseen incidents occur will the long accumulated problems associated with regional disparities become apparent. The essential prerequisite for the influence of disparities in regional economic development on macro-economic operation is the formation of regional economic interests as the subject.

Since the time of Keynes, almost all economic theories have maintained that there are three economic subjects: the state, enterprises, and individuals, and all economic analysis has been made on the basis of these three subjects. For China, a large socialist country, this three-subject theory has its drawbacks because it cannot explain the actions of Chinese local governments and their relations to other economic subjects. The authors believe that four subjects should be used when analyzing the Chinese macro-economy, i.e., the central government, local governments, enterprises, and individuals. Defining local governments as an economic subject at the local level to some extent reflects the special conditions governing China's publicly-owned economy, and also helps increase understanding of the mechanisms of China's macro-economic operation. Local governments may not exist as a separate strata in smaller countries, and, although they may exist in larger countries where the private economy plays a dominant role, they do not play an important role in economic life.

2. Regional economic interests and conflicts.

As an economic subject, the most important feature of regional governments is that they have special economic interests with clearly defined parameters. They can co-exist peacefully for a long period of time as long as they do not impinge on each other's activities. However, when they play different roles in the same economic activity, while still subject to the same conditions governing resources and distribution within the same national income, their interests and aims will vary. In the course of pursuing their respective goals, there is bound to be a conflict of interests. The behavior of one region will restrain other regions from achieving their own aims. Each region will respond differently to such restraints and conflicts between regions thus appear at different levels and to varying degrees.

Regional conflicts can be divided into two basic categories: direct and

indirect. Direct regional conflict refers to all those contradictions which exist between regions in the market. For example, regions compete for resources, there are "market blockades" to protect local products, and so on. Indirect conflict refers to problems between the regions which are reflected by an intermediary. For example, bargains struck between the central and local governments for financial pay-outs or infrastructural investment; competition for development projects that produce rapid results, since the regions are eager for quick success and instant benefits; and seeking favorable conditions for their own region from the central government. Since the introduction of reform, the increasing frequency of regional conflicts has become a major problem in China's economic life.

3. The impact of regional economic disparities on the macro-economic subject.

Regional conflicts based on disparities in economic development, first and foremost, have a great impact on the macro-economic subject. In China, the macro-economic subject is the central government, which has a dual function as overall leader of the state administration and as the regulative center of economic management. The existence of regional economic disparities has created a basic conflict for the central government, i.e., a contradiction between equality and efficiency. A search for equality means that distribution of resources will incline towards those regions where the level of development is comparatively low in order to narrow the gap and achieve coordinated development of the regions. A search for efficiency, on the other hand, means that the distribution of resources should incline towards those regions with a higher output, which are usually those with a higher level of development. This in turn will inevitably widen the gap between the regions. In the past ten or so years, efficiency has become the focal point of economic activities. To this end, a strategy favorable to the open coastal areas has been adopted, and these areas are not required to hand over a greater proportion of their revenue to the state although their incomes have increased. Although this has greatly enhanced the economic development of the coastal areas, there has been no apparent financial gain by the central government. At the same time, there are many neglected tasks to be undertaken in the underdeveloped regions, and because of the fixed interest on the monetary funds granted by the central government to these underdeveloped regions, they can only increase, but never decrease. Furthermore, the central government has had to invest in a large number of trans-regional infrastructural construction projects, which have left the central finances somewhat hard pressed over the years. When financial difficulties reached a certain point, the central government would "borrow" or "take from the fat to pad out the lean." As a result, the central government has always wavered between equality and efficiency in its decision-making which has created volatility in its policies.

Regional economic disparities also make it impossible for the central government to implement smooth regulation and control towards its aims. Since different regions are at different stages of development, a unified macro-economic policy might be suitable for some regions but would be inappropriate or even totally unsuitable for others. Rigid uniformity will result if it is forcibly implemented. However, if different macro-economic policies are applied in accordance

with the varying conditions in the regions, macro-regulation and control become more difficult, and the authority of the macro-regulation and control policy could be undermined. This could also provide even more leverage for the regions in their bargaining with the central government.

4. The impact of regional economic disparities on overall social demand and supply.

When regions become the economic subject, there is a strong tendency for local governments to expand, which is then reflected in the investment patterns of the local governments. However, the sum total of resources and national income that can be used for accumulation in a country in a given period of time is limited. When one region expands its investment, the investment of other regions is bound to shrink. If each and every region is eager to invest and this desire is turned into actual investment, there will most probably be investment inflation.

Regional conflicts based on disparities in economic development will lead to an aggregate social supply lower than the latent aggregate supply. All regions want to expand their output, but because total output is rigidly fixed and resources are difficult to obtain, there will inevitably be a shortage of resources. Once this occurs and the regions cannot obtain the resources they need for their expanded reproduction, they must increase their reserves of resources. This inevitably exacerbates the shortage of resources.

Resource shortages lead to two scenarios: (1) Regions short of resources make every effort to acquire them and are prepared to pay high prices, since obtaining resources to keep production going is much better than suspending production until raw materials are available. Meanwhile, those regions with an abundance of resources do not let go of them easily, and a "market blockade" develops. (2) In order to make better use of their resources, those regions with abundant resources set up more factories or enterprises which leads to a "duplication of construction."

III. The Necessity for Macro-Economic Management When Regional Economic Disparities Exist

When regional economic disparities exert a negative influence on macro-economic operation, the natural solution is to narrow the gap between the economic development of different regions. The question is, how can this be achieved?

Generally speaking, governments throughout the world have adopted two policies designed to narrow the gap in regional development: a comprehensive market [economy] or government interference. The difference between the two lies in the adoption or non-adoption of macro-economic management.

In theory, total reliance on market forces cannot ensure the balanced spatial development of the national economy.

1. A regional economy is always linked to a given fixed space. The rise or fall

of a regional economy depends on the rise or fall of the industrial economy within that space. Differences in natural conditions and some features inherent in contemporary economic activities call for a continuous redeployment of resources in order to achieve balanced development between the regions, but the redeployment of resources under regular market conditions may be too slow. Four basic elements may also cause an even greater imbalance in regional economic development: a) As the proportion of agriculture in the industrial structure is reduced, large numbers of surplus laborers move to urban areas; b) The dependency of manufacturing industries on raw materials becomes less than their dependency on the market as a result of technological progress; c) Alongside economic development and rises in incomes, tertiary industries become more important. Only cities with a large population are suitable for the development of such tertiary industries; d) Free competition in the market ceases to exist, and monopolies and non-market factors make it even harder for production factors to move between different industries. In summary, if one tries to guide and regulate the deployment of resources between industries and regions by relying solely on the slow effects of market regulation, results will be seen only *after* the rise or fall of the industries has become a *fait accompli*. Macroscopically, this leads to the coexistence of both prosperity and recession in the regions.

2. Market mechanisms reflect, mainly through prices, the extent of resource shortages, and the cost and effectiveness of commodities and labor services. In cases where production costs cannot be included in the price because of external factors, the regulative mechanism of market price may lead to a wrong spatial deployment of resources. Spatially, the influence of external factors may produce a concentration in the same space of economic units with the same or different production orientations, a concentration of the same or different factors of production, and the same or different demand structure. External factors may result in a cost return from production or individual consumption that is lower than the social cost. If the density of economic units exceeds a certain level within a defined space, the disparities between private cost returns and social cost returns will increase disproportionately. Single economic subjects tend to concentrate in locations where private and social cost returns increase disproportionately. Price rises will not stop this tendency towards concentration, on the contrary, they encourage it.

3. When there is total regulation by the market, unequal regional competition is inevitable. The polarized effect will be larger than the spread effect over a fairly long period of time, which disadvantages the weak and increases the disparity in incomes among the regions. Even equal industrial competition may appear as unequal regional competition. At the same time, the market cannot mobilize resources in a concentrated way, although this is often the specific task of a nation for the development of a key region at a particular time.

It has become clear to most governments and economists that total reliance on market forces cannot resolve the problem of regional disparities in economic development. The American economist Albert O. Hirschman has pointed out that without careful government involvement regional disparities will continue to increase. "Government involvement" is none other than macro-economic management.

IV. The Complexity of Macro-Economic Management When Regional Economic Disparities Exist

Regional economic disparities divide the whole national economy into two parts: the developed and the underdeveloped. This undoubtedly poses new difficulties for macro-economic management.

The authors believe that as a result of these disparities there are profound contradictions in the Chinese economy which will exert both a widespread spatial influence and have a temporal influence in the future. These contradictions are:

1. The contradiction between reform and development.
2. The contradiction between catching up with and surpassing an advanced international level and coordinating development between the regions.
3. The contradiction of a "double dual structure"—a reference to the fact that not only are there developed and underdeveloped regions, but that developed towns and cities and backward rural areas exist in both developed and underdeveloped regions. Statistics show that the disparities between urban and rural areas in China are far greater than those between different regions, while economic disparities between the developed and underdeveloped regions are mainly found between the rural areas in these regions. Taking the country as a whole, there remains the problem of transforming the "dual economy" into a unified economy. The same is true for the regions.
4. The contradiction between the rapid development of traditional industries and the earliest possible transformation of leading industries into new industries.

These contradictions are essentially those related to progress and development. The surfacing of such contradictions demonstrates that China has entered a historical period in which her economic structure is undergoing dramatic changes, and this is therefore a normal phenomenon. The correct handling of these contradictions will encourage the effective functioning of China's economy; if they are not correctly handled they will hinder and exert a negative effect on the historical process of Chinese economic development.

V. The Framework for Macro-Economic Management When Regional Economic Disparities Exist

Viewed from the angle of regional economic development, the aim of China's macro-economic management should be to ensure the sustained growth of all regions, and control regional disparities within socially acceptable limits. To attain this goal, the following relationships must be correctly handled:

1. The relationship between equality and efficiency.
2. Continuation of the principle of combining planning with the market.
3. Continuation of the principle of combining policies favoring one particular area with policies of coordination. There should also be a change from policies favoring particular regions to those favoring particular industries.

4. Continuing the combination of economic and legal means.

The establishment of a unified market for the whole country is of paramount importance for the coordination of economic relations between the regions and is a prerequisite for the establishment of a new regional economic order. It is currently a priority to ensure that there is mutual free trade between the markets in all regions, which should operate according to the same mechanism and regulations. Secondly, "hardware," including transportation and communication networks, should be constructed. In the meantime, central cities with good conditions should be selected for the establishment of market production which should be oriented towards the whole country. Finally, a legal system, which should include laws governing a unified market, equal competition, and anti-monopoly laws, should be devised to suit the needs of market economic development. Corresponding bodies to supervise, implement, and arbitrate these laws should also be established.

—*Translated by Ma Jisen from
Zhongguo shehui kexue, 1995,
no. 2
Revised by Su Xuetao*

ABOUT THE AUTHORS

- Guo Tiemin (郭铁民), Institute of Economics, Fujian Normal University.
- Han Qingxiang (韩庆祥), b. 1957, Doctor of Philosophy, Associate Professor, Department of Philosophy, the Party School of the Central Committee. Address: Beijing 100091, China.
- Hong Yinxing (洪银兴), b. 1950, Professor of Economics, Deputy Dean, Institute of International Commerce, Nanjing University.
- Hou Yangxiang (侯祥祥), Correspondent for *Chinese Culture*.
- Hu Naiwu (胡乃武), b. 1934, Professor and Director of the Institute of Economic Studies, Renmin University of China. Address: Beijing 100872, China.
- Lei Tao (雷 弢), b. 1951, Associate Research Fellow, Institute of Sociology, Beijing Academy of Social Sciences. Address: #19, Xidan Canzheng Hutong, Beijing 100031, China.
- Lin Hanchuan (林汉川), b. 1949, Professor, Deputy Director of the Institute of Economic Studies, the Finance and Economics University of the Mid-South China. Address: 430064, China.
- Lin Maocan (林茂灿), Research Fellow, Institute of Linguistics, CASS. Address: #5, Jianguomennei Street, Beijing 100732, China.
- Lin Shanlang (林善浪), Institute of Economics, Fujian Normal University.
- Liu Bohong (刘伯红), b. 1951, Associate Research Fellow, Institute of Women's Studies, the All-China Women's Federation.
- Liu Shuzi (柳树滋), b. 1937, Professor, Hainan Administration College and the Graduate School of Chinese Management Science. Address: Haifu Dadao, Qiongzhan County, Hainan 571100, China.
- Shen Kunrong (沈坤荣), b. 1963, Ph.D. student, Department of Economics, Renmin University of China. Address: Beijing 100872, China.
- Wang Keping (王柯平), b. 1955, M.A., Australian National University, Canberra; Professor, Institute of Inter-cultural Studies, Beijing Second Institute (University) of Foreign Languages. Address: Beijing 100024, China.
- Wang Luolin (王洛林), Professor of Economics, Vice President of the Chinese Academy of Social Sciences. Address: #5, Jianguomennei Street, Beijing 100732, China.
- Wei Wei (韦 伟), b. 1955, Doctor of Economics, Institute of Economic Studies, Renmin University of China. Address: Beijing 100872, China.
- Wen Qian (闻 潜), b. 1930, Professor, Central University of Finance and Economics. Address: Beijing 100081, China.
- Yang Xiangkui (杨向奎), Professor, Institute of History, CASS. Address: Beijing 100020, China.
- Yuan Minggong (袁明钢), Institute of Economics, CASS. Address: Beijing 100836, China.