Historical Review of China’s Regional Inequality
-pre-reform period (1949-1978) and the reform period (1978- onwards)-

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Abstract

China has experienced rapid economic growth over the last three decades as a result of market-oriented reforms. However, regional inequality in China has also shown a tendency to increase over the same three decades. Regional inequality in China is a very complicated issue, both in terms of historical background and factors contributing to inequality. The purpose of this Paper is to give an overview of the historical background of the inequality issue in both the pre-reform period (1949-1978) and the reform period (1978- onwards). The main findings are twofold, first, it is clear that, in the pre-reform period there was already an imbalance in development between regions. Second, inequality in China’s reform period has shown a tendency to increase, and as things are now, and it is hard for the affluent regions to help the lagging regions automatically.

Keywords: China, inequality, historical review, reform, pre-reform.

1. Introduction

Since the establishment of the People’s Republic of China, China’s development strategy has been informed by socialist ideology which gives the state a core role in economic activities. From the economic reform which started in 1978, development strategy has increasingly emphasised the function of market. Regional inequality in both periods has a specific identity and an overview of both periods is useful to an understanding of the background issues.  

And as geographically China is divided into three regions, western, central and eastern (coastal) regions and many regional development strategies of China are based on three regions (west, central and east) rather than on provinces level. Thus, the regional dimension is a core component of the whole of China’s development (Chen, 1996). For example, at the beginning of the economic reform in the 1980s and 1990s, the open door and coastal development policies favoured the coastal areas and thus inter-regional inequality increased between coastal and inland regions. At the start of the new century, in order to resolve the rising inter-regional inequality, the central government proposed several strategies also based on region, such as the “Rise of Central China Plan” and “Western Development Strategy” which respectively focused on the central areas and the western areas (Liu, 2006, p.379).

At the same time, Chinese policy makers have adopted the comparative advantage strategy at the regional level in order to make most use of the diversity of the Chinese situation. China is a huge country with a population of 1.3 billion, the largest in the world. It is hard to boost the efficiency of development in a country with limited resources and capital when it is evenly distributed, but even harder when there are vast disparities between regions. In practice, Mao made enormous efforts to eradicate regional industrial disparities in the 1960s and 1970s, mainly by interior-oriented investment and labour migration. However this strategy proved inefficient to some extent. After 1978, China adopted a new regional development strategy which concentrated the capital and investment in the coastal area. This strategy has led to a dramatic rate of development, but with serious ramifications for regional inequality, which has also grown during the same period.

Thus, the increase in the unevenness of China’s regional development has been a serious phenomenon, therefore, how to study and analyse this form of inequality objectively, and how to understand the causes of the problem and find the ways to resolve it has become increasingly important.

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7 The Rise of Central China Plan is a policy adopted by the People’s Republic of China to accelerate the development of its central regions. It was announced by Premier Wen Jiabao on the 5 March 2004. It covers six provinces: Shanxi, Henan, Anhui, Hubei, Hunan, and Jiangxi.

8 China Western Development, also China’s Western Development, Great Western Development Strategy, or the Open Up the West Program is a policy adopted by the People’s Republic of China to boost its less developed western regions. The policy covers 6 provinces (Gansu, Guizhou, Qinghai, Shaanxi, Sichuan, and Yunnan), 5 autonomous regions (Guangxi, Inner Mongolia, Ningxia, Tibet, and Xinjiang), and 1 municipality (Chongqing). This region contains 71.4% of mainland China’s area, but only 28.8% of its population, as of the end of 2002, and 19.9% of its total economic output, as of 2009.
In this paper, I will give an overview of the background of the inequality issue in both the pre-reform period (1949-1978) and the reform period (1978– onwards). In the following, I discuss historical background of regional inequality in China as understanding these background will help us to understand how to resolve the inequality issue.

2. Pre-reform period

Economic development in China can be divided into two distinct periods, i.e. the pre reform and reform periods. Economic development in the pre reform period from 1949 to 1978 was impressive. Apart from the 3 years of great famine from 1959 to 1961, the living conditions of people were generally much better than in the pre-1949 period. However, due to many political struggles, especially the Great Leap Forward Movement (1958–1961) and the Cultural Revolution (1966–1976), production incentives were suppressed and the economy failed to perform to its potential.

As early as 1949, the disparity in regional development became a significant issue in the establishment of the new China owing to its role in the debates over the nature of socialism, resource allocation among regions, central control and local autonomy (Wei and Liefner, 2012, p110).

According to previous research, there were three main reasons why the new government at that time regarded this imbalanced development as an important issue. Firstly, the coastal area was far away from the raw materials, energy supply and interior labour market; secondly, the poor transport system made long-distance transportation extremely expensive; thirdly, the coastal regions were vulnerable to attack geographically and the threat to the high concentration of industry presented a big national security risk (Fan et al., 2012, p20).

From the perspective of industrial development, following the civil war the industrial infrastructure of the whole country was not only very imbalanced but also devastated by the war. More than 70% of industry was located in the eastern area while the central and western region shared the remaining 30%. Moreover, in the coastal areas, most of the industrial output and factories were heavily concentrated in just a few cities, such as Dalian, Beijing, Shanghai, Tianjin, Anshan, Shenyang, Benxi, Fushan. These cities accounted for 55% of industry within the coastal regions (Yang, 1989, p231-235). At this time, China was a typical dual economy and agriculture still accounted for a huge part of the domestic economy. Typically in China, a huge amount of agricultural villages surrounded a few industrial cities.

To resolve the issue of uneven regional development, the central government under the leadership of Mao Zedong, attempted to make efforts towards developing the inland regions in the First Five-Year Plan (FYP) period (1953-1957). During this period, 56% of central government directed investment in industrial assets was given to the inland regions and nearly two-thirds of major projects were located there (Yang, 1989, p231-235). Some success was achieved during this time in reducing the inequalities between coastal and interior regions.

Starting from 1958, China began the economic development strategy called the Great Leap Forward (1958-1960) which aimed to boost the efficiency of heavy industrial development, particularly the iron and steel industry. This irrational development was one of main causes of the disaster of the worst famine in China (1959-1961). In this period, the central government continued to increase the investment in the interior region. The average was 59.4% between 1958 and 1962, and grew further to 62.5% during 1963-1965 (Yang, 1989, p231-235).

The Cultural Revolution started in 1966, and because of this, development in China functioned in a chaotic way until 1976. In those ten years, central planning of development almost stopped altogether as a result of the purge of the whole state bureaucracy instigated by Mao Zedong. Because all economic incentives were entirely replaced by bureaucratic controls, agricultural production became damaged and distorted. Economic growth in the regions which depended on agriculture stagnated. Heavy industrialization in the interior slowed down because of the revolution, but in the eastern areas, such as Shanghai, Tianjin and Liaoning, industrialization continued. Previous research gives strong proof of the increasing disparity across regions during the Cultural Revolution (Zhang and Zhou, 2012, p117).

Although some effects were achieved during Mao’s period, the consequences of these efforts did not help to balance development between regions. On the contrary, many scholars argue that the inequality increased during this period. There were several reasons for this. In economic terms, the coastal area had more factor endowments compared with the interior area. The labour force in eastern (coastal) region had had long experience of industrial work while in the interior the workers were new recruits from the peasant population (Yang, 2002, p332); similarly managerial skills accumulated in the superior industrial areas along the coast. Also, transport facilities were much more efficient in the coastal region which provided a huge support to the development in that area. As a result, the development speed and industrial output in the eastern regions became even higher compared with the inland areas. From a political perspective, during Mao’s period, local governments had a great deal of power to manage development themselves due to the principle of self-reliance, especially after the two decentralization changes in 1958 and 1970 (Wei and Ye, 2009, p65). The coastal area developed more efficiently than the interior not only due to its accumulated experience and superior factor endowments. The political frame-work also boost the efficiency in the eastern area, and helped the coastal areas to develop at a higher speed compared with the interior region despite more government investment going to the central and western regions (Yang, 1989, p231-235).
As a consequence, in the pre-reform period, even though the central government recognised the regional inequality problem and focussed on developing the interior area, the results of this were not good. What is more, both China’s economic system and political strategy eventually promoted development in the coastal region and the regional inequality in development persisted.

To conclude, central control of economic development, the Cultural Revolution and the emphasis on a national defence strategy limited the resources needed to develop a balanced growth across different regions. Thus, poor inland investment and failure of policy led to uneven development and increased inequalities. As research show, the inter-regional gap actually widened under the pre-reform period (Wei et al., 2009, p62).

3. Reform period

Deng Xiaoping seized political control of China in 1976 after the death of Chairman Mao Zedong. He initiated a series of reforms with the purpose of modernizing China’s industry, agriculture, national defence and science and technology. In December 1978, at the third Plenary Session of the Eleventh Central Committee of the Chinese Communist Party, Deng announced the adoption of a new “open door strategy” and drastic agricultural reforms. These formed the start of the reform period and changed the development strategy from one closed to the rest of the world to an active participation in the global market (Lo, 1989, p293).

Economic reforms, particularly coastal development strategies and open-door policies, have contributed to the rapid growth of the coastal region while the interior has lagged behind. The rapid growth, in particular, of the coastal provinces of Guangdong, Jiangsu, Zhejiang, Fujian and Shandong has contributed greatly to the development of the coastal area as a whole. These provinces have been favoured by state policy and global investors; local initiatives and favourable local conditions have also contributed to their dramatic growth (Wei, 2002). Global, state and local forces, rather than state policy alone, have influenced the changing inequality in the region of China.

These reforms first started in the rural region by introducing the rural household production responsibility system. The change gave farmers more freedom and allowed them to retain their own agricultural products after fulfilling the standard production quota set by the local production team. With the rises in the price of grain procurement in the following years, this reform helped the rural residents to raise income and improve agricultural productivity. At the same time, more efficient methods helped to release an enormous labour force from agriculture. Over the period from 1978 to 1984, grain productivity increased from 305 to 407 million tons and personal income in the rural regions doubled (Yao and Zhang, 2001, p469). What is more, owing to the equal distribution of land among households and labourers, the income was shared relatively equally by each family and the economy in rural regions grew at a significant speed. Consequently, the regional inequality in China declined at the beginning of reform period (Zhu and Wang, 2012, p84-85). Large-scale property reduction was also achieved because of the declining inequality and narrowing gap between rich and poor at that period.

Accompanying the success of the rural reforms, the government began to reform the urban economy and state-owned enterprises (SOEs). However, reforming the urban economy is a more complicated and difficult process than reforming rural economy. Urban reform had enormous enthusiasm from the population but urban reform faced forceful resistance from both SOE workers and some party leaders. In order to overcome the traditional ideological obstacles and prove that central planning was not the only way to achieve development goals, special economic zones were set up in Fujian and Guangdong in 1980.

In these new established Special Economic Zones (SEZs) along coastal regions, investment from foreign and private firms was encouraged through favourable policies such as flexibility of employment and tax incentives. In a short time, the special economic zones attracted a huge amount of investment and since development there was very successful, the central government decided to open more coastal cities as new SEZs and another 14 cities were set up in 1984. The Yangpu Development Zone in Hainan and Pudong Development Zone in Shanghai followed in 1988 and 1989 respectively.

Deng Xiaoping’s development policy, at the start of the economic reform, involved allocating China’s limited capital and resources into just a few growth centres, such as the special economic zones in the eastern regions and the big cities inland. Development in the rest of the nation was left behind with the expectation that it would benefit later on from the high speed growth centres. However, this development strategy led to disparity throughout the country, exacerbating the divisions between the coastal and the interior areas (Yao and Zhang, 2001, p469-470). The coast became the growth centre of the whole country while the interior was left behind.

It is true that the open door policy played a significant role in creating the dramatic increase in economic development during the reform period in China. Today, China has become one of the main trading countries in the world and the largest recipient of foreign direct investments of the developing countries. On the other hand, the open door policy contributed greatly to the problem of regional inequality, as the reform strategy encouraged some areas, and citizens, to become wealthy first and then, following this, to help the impoverished regions. This reform successfully
helped some regions and some people to become affluent, but totally failed to do so in other regions leaving vast numbers of the population to catch up, as yet unsuccessfully.

To conclude, for the historical review regional inequality has been an important issue in China since the establishment of the People’s Republic of China (PRC) in 1949, due largely to its role in the debates over the nature of socialism, central control and local autonomy, and resource allocation among regions. Mao, during the First Five-Year Plan (FYP) period (1953–57), attempted to develop the interior region. Regional allocation of resources has since become an important part of China’s national planning. Scholars generally agree that some effort was made to develop economically lagging regions, but they disagree over the extent and consequence of the effects. I have argued that regional inequality in fact persisted during Mao’s era, due largely to historical legacy, uneven geographic distribution of resources, the emphasis on industrialization and national defense.

Since the launch of reforms in the late 1970s, the central government has encouraged some regions to ‘get rich first’ and has emphasized coastal development, arguing that concentration and specialization are required for rapid growth and the diffusion from more developed regions would stimulate the prosperity of the whole country. China’s development policies during the 1980s and early 1990s, such as the open door policy and the coastal development strategy, favored and decentralized more decision-making power to some coastal areas.

Inequality in China’s reform period has shown a tendency to increase, and as things are now, and it is hard for the affluent regions to help the lagging regions automatically. Therefore, it is necessary for the state to take some measures in dealing with this issue.

4. Conclusion

It is clear that, in the pre-reform period there was already an imbalance in development between regions, with the coastal area enjoying a higher rate of development than inland areas. Although the government realized the problem of regional inequality and attempted to develop the interior regions, the result was not effective. In the reform period, because of the limited capital and resources, the government adopted a development strategy which favoured the coastal regions. But, even though the coastal areas are now well developed, capital and advanced technologies continue to be concentrated there, and this further exacerbates the inequality between coastal and inland regions.

Government regional development policies, investment and trade, education, labor mobility and migration, geographical conditions have enhanced the competitiveness of the coastal region, leading to wider regional disparities. Deng Xiaoping hoped that when the coastal regions became rich, they would pass on the benefits of their rapid growth to the rest of the country and help the less developed regions to catch up. However, it seems there is no tendency on the part of the affluent regions to transfer their benefits to the inland especially in the western region. Therefore a more balanced development strategy is necessary to redress the disparities in development in China. This brings a major challenge to the Chinese government. In China, minority nationalities are concentrated in the less developed inland areas. Further widening of regional disparities could cause conflicts between nationalities and may lead to even larger social and political problems. Therefore, the Chinese government should pay more attention regarding regional disparities as major national policy issues and make efforts to slow them down and eventually to reduce them. In next chapter, we will discuss about the policy implications concerning about this issue.

Reference

