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*Modern China* 2002; 28; 432

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# *China's Western Development Program*

## **Its Rationale, Implementation, and Prospects**

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Of the three regions in China—coastal (eastern), central, and western—the Chinese government focused its attention on the first when it began economic reform (Yang, 1990, 1997). In 1988, Deng Xiaoping explained, “The coastal areas, which comprise a vast region with a population of 200 million, should accelerate their opening to the outside world, and we should help them develop rapidly first; afterward they can promote the development of the interior” (<http://english.peopledaily.com.cn/dengxp/vol3/text/c1910.html>, accessed 3 January 2002). In late 1999, after two decades of pursuing coastal development, Chinese leaders announced a change in China’s regional development strategy and initiated the western drive.

The first section of this article analyzes the origins of the western development program, demonstrating that it was intended to address economic, regional, ecological, and security concerns. The second section examines the implementation of the program in terms of infrastructure, environment, investment, economic adjustment, human capital, and the welfare of the population. The third and final section discusses the advantages of, obstacles to, and prospects of the western developmental program. I argue that because the western drive may encounter economic, political, and cultural obstacles—including official corruption, governmental inefficiency, ethnic division, and low economic returns—Chinese leaders may reap limited political and economic benefits from it in the near future, particularly in areas with large ethnic populations.

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AUTHOR'S NOTE: *I thank Kathryn Bernhardt and two anonymous referees for their valuable comments and Elspeth Thomson and Eric Stump for their editorial assistance.*

MODERN CHINA, Vol. 28 No. 4, October 2002 432-466

DOI: 10.1177/009770002237663

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Two points are worth noting here. First, the Chinese government apparently is not restricting the western drive to the ten western provinces listed in Table 1 but is willing to include underdeveloped provinces with large ethnic populations in other regions, especially Neimenggu (Inner Mongolia) and Guangxi (Zou Dongtao, 2000: 3.754-863; Goodman, forthcoming). Second, the west is a vast region, diverse in population, topography, and climate.<sup>1</sup> More than half the inhabitants of Tibet and Xinjiang and more than one-third of those in Qinghai and Ningxia are ethnic minorities; in the other seven provinces, the Han population predominates.

#### *EVOLUTION AND INTRODUCTION OF THE POLICY*

During the 1980s, Deng proposed that China undergo development in two stages, first on the coast and then in the interior (Du Ping et al., 2000: 25; Fang Li and Chen Zishun, 2000: 6-7; BR, 7 February 2000). The state concentrated on the coastal region for most of the 1980s and 1990s (Yang, 1990, 1997). In 1982, the Twelfth Congress of the Chinese Communist Party (CCP) set the goal of quadrupling the gross industrial and agricultural output and raising the living standard of the country to a "comparatively well-off level" (*xiaokang shuiping*) within two decades (i.e., by 2000) (Tang Yingwu, 1998: 183).

The Sixth and Seventh Five-Year Plans (1981-1985, 1986-1990) aimed at achieving this goal. In their guidelines, the state explicitly stipulated that the eastern coastal region as a whole, as well as key areas of the central interior region, should undergo development and that the remote western region should actively prepare for future development (Shi Zhengyi, 1988: 35). This coastal focus culminated in 1988 in Zhao Ziyang's "Coastal Economic Development Strategy" (*yanhai jingji fazhan zhanlüe*) (Tang Yingwu, 1998: 292-93). Deng promised the interior regions that their patience in waiting their turn would eventually be paid back generously. In 1992, he explicitly noted that the state might need to address regional inequality by helping the less-developed regions around the end of the century, when the nation's overall living standard had reached a "comparatively well-off level" (Deng Xiaoping, 1993: 374).

**TABLE 1: The Three Regions of China**

<i>Region</i>	<i>Provinces</i>	<i>Number of Provinces (1997-present)</i>	<i>% of China's Population (1995)</i>	<i>% of China's Area</i>
Coastal (Eastern)	Liaoning, Hebei, Beijing, Tianjin, Shandong, Jiangsu, Shanghai, Zhejiang, Fujian, Guangdong, Hainan, Guangxi	12	41	15
Central	Jilin, Heilongjiang, Shanxi, Inner Mongolia, Anhui, Jiangxi, Henan, Hubei, Hunan	9	36	29
Western	Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, Sichuan, Chongqing, Guizhou, Yunnan, Tibet	10	23	56

SOURCE: Fang Li and Chen Zishun (2000: 196).

NOTE: The regional division is based on the 1985 Chinese Communist Party Central Committee's Proposal for the Seventh Five-Year Plan for National Economic and Social Development and takes into account that Hainan and Chongqing have become provincial units.

Post-Tiananmen leaders led by Jiang Zemin, the general secretary of the Party, paid attention to regional inequality in the 1990s. In December 1990, the Party's proposal for the Eighth Five-Year Plan (1991-1995) recommended that labor be rationally divided and development coordinated between regions. It also asked coastal areas and cities to select underdeveloped areas and cities as economic partners. But Deng's reform-promoting tour of southern China in 1992 encouraged coastal provinces to forge ahead with reform, perhaps delaying for a few years these attempts to correct regional inequality (Yang, 1997: 90-92).

In March 1994 and March 1995, Premier Zhu Rongji once again highlighted the central government's concern for the interior region by declaring during the National People's Congress (NPC) sessions that the state would increase investment in the central and western regions. In March 1996, the NPC's proposal for the Ninth Five-Year Plan included Jiang's policy statement "insisting on coordinated regional economic development and gradually reducing the gap in development between regions" (Du Ping et al., 2000: 26). In addition, in June 1996, Jiang declared an intention to solve the problem of rural poverty by the year 2000. Since most of the impoverished lived in the interior regions, the antipoverty program would have significantly improved their living standard. But the most substantial measure may have been the NPC's designation of Chongqing as a provincial-level directly administered municipality (*zhixiashi*) on 14 March 1997, both to facilitate the Three Gorges Project and to enable Chongqing to play a key role in spearheading the development of the inland provinces (Bai Guang, 2000: 91-92; Du Ping et al., 2000: 25-27, 361; Liu and Tam, 2000: 3).

The impressive progress in modernization and economic growth achieved with the help of coastal development might have prompted post-Deng leaders to take the second step in Deng's strategy in the late 1990s. Per capita gross domestic product (GDP) in 1998 was 4.3 times higher than in 1980 (State Statistical Bureau [SSB], 1999: 58, 318). In 1998, China's gross national product (GNP) per capita totaled \$750; it was thus approaching \$800, the minimum level set by the World Bank in 1997 for "lower-middle-income" countries (World Bank, 1997: 214; 2000: 230). These rapid changes might have led Chinese leadership to conclude that the country as a whole was relatively well off and

that it was time to pay more attention to the interior provinces. Acting on Deng's promise to develop the interior provinces around the turn of the century would also sustain the loyalty of the interior regions. Furthermore, doing so could significantly improve the overall economic strength of the nation, as the relatively underdeveloped central and western regions joined the coast in modernizing (PD, 4 September 2000).

Jiang proposed the western development strategy during the Ninth NPC in March 1999 (Jing Bao, February 2000: 30), formally spelling it out in two speeches of June 1999. At the CCP Central Committee Meeting on Aiding the Poor on 9 June, he declared,

The conditions for speeding up the development of the central and western regions have by and large existed, and the time is ripe. . . . In continuing to accelerate the development of the eastern coastal region, we should lose no opportunities to speed up the development of the central and western regions. From now on, this should become a major strategic task for the party and the state, and should be placed in a more noticeable position. [Du Ping et al., 2000: 27]

On 17 June, at the Conference on the Reform and Development of State-Owned Enterprises (SOEs) in the Five Northwestern Provinces in Xi'an, Jiang first used the phrase "great western development" (*xibu da kaifa*). Elaborating on the policy's rationale as well as its focus, he cited Deng's 1992 speech on overcoming regional inequality by the turn of the century. Termed the "Xi'an Speech" and featured as a front-page story in the Party organ *People's Daily* on 19 June, it marked the birth of the western development policy (Jing Bao, February 2000: 31; PD, 4 September 2000).

#### REASONS FOR THE POLICY

##### REDUCING REGIONAL INEQUALITY AND THE INTERIOR REGIONS' DISCONTENTS

All of China grew rapidly in the post-Mao years, but both the coastal development strategy (Fang Li and Chen Zishun, 2000: 205-26) and the fiscal reforms of 1994 (especially changes in tax rates and in revenue

sharing between the center and provinces) widened the gap between the coastal and the interior regions. The emphasis on coastal development in the 1980s and 1990s gave that region an absolute advantage in state investment, exposure to the world economy, and access to foreign direct investment (FDI). Its share of state investment increased from 42.2% between 1976 and 1980 to 53.6% between 1996 and 1997, whereas the central and western regions' shares dwindled from 50% to 38.8%.<sup>2</sup> Although national leaders had pledged to boost interior development between 1994 and 1996, basic construction investment in the state sector in central and western China remained largely unchanged, at 39% of the country's total over the 1991-1995 period and 38.8% over 1996-1997 (Chen Yao, 2000: 10).

While the economic bases in the coastal region enjoyed easy access to external markets and investment as early as 1985, the center created no open area (i.e., area open to foreign business and investment) in the interior regions until 1992 (Gao Shangquan, Wang Mengkui, and He Cun, 1993: 1704-6). Between 1980 and 1993, open areas in the coastal provinces averaged 32.8% of the region's industrial output, whereas those in the central and western provinces averaged only 6.5% and 8.4%, respectively.<sup>3</sup> Partly because they became open later, the central and western regions attracted only 10.7% and 3.5%, respectively, of total FDI in China in 1997 (Gao Zhengang et al., 2000: 64).

The central and western regions lagged far behind not only in resource allocation from the central government but also in sectoral transformation. Between 1978 and 1995, per capita GDP grew most rapidly in the coastal region, at 10.2% per annum, compared to 9.5% in the central region and 7.5% in the western region. As a result, while the coastal region's share in national GDP rose from 52.5% in 1978 to 59% in 1995, the central and western regions saw decreases—from 29.7% to 26.5% and 17.8% to 14.5%, respectively. Moreover, after two decades of reform, even though tertiary industry had expanded in all three regions, primary industry remained disproportionately important in the central and western regions (SSB, 1996: 132, 133, 174; Fang Li and Chen Zishun, 2000: 205-6).<sup>4</sup>

Equally important, the living standard in the interior lagged behind that on the coast (see Table 2). The gap in rural incomes was especially large. In 1992, 30.4% and 51.9% of the counties below the official

TABLE 2: Relative Per Capita Rural and Urban Income by Region (western = 1)

Region	Rural		Urban	
	1980	1995	1980	1995
Coastal	1.39	2.3	1.15	1.44
Central	1.11	1.3	0.98	0.98
Western	1.00	1.0	1.00	1.00
Nation (yuan)	191	1,578	458 <sup>a</sup>	4,288

SOURCE: Fang Li and Chen Zishun (2000: 210-11); State Statistical Bureau (1996: 140, 186).

NOTE: Urban income in 1980 comprises disposable income for living, excluding Jilin, Anhui, Henan, Qinghai, and Tibet, for which data were not available. Hainan and Chongqing are included in Guangdong and Sichuan, respectively.

a. 1981 data.

poverty line were in the central and western regions, respectively. It is estimated that in the late 1990s, 90% of the nation's "poor" lived in the interior (Fang Li and Chen Zishun, 2000: 211).

Discontent over the widening gap grew in the interior provinces in the 1980s, which were particularly infuriated by two practices. First, the coastal provinces sold to the interior regions products intended for export, driving local firms out of business. Second, the coastal provinces lightly processed raw materials purchased from the western region at state-fixed low prices and exported them to the world market for valuable hard currencies. In response to this perceived unfairness, the interior provinces refused to sell their raw materials to the coastal region (Xu Bingwen et al., 1992: 267-68).

In the 1990s, a group of analysts and scholars argued that in the first two decades of reform, the coastal region accumulated its wealth through "exploiting" the western region, which demanded compensation from the center in the form of policies in the interior even more favorable than those adopted in the coastal region. The interior's government leaders supported these pleas (Jing Bao, April 2000: 29; Yang, 1997: 118).

In recent years, such demands may have intensified. In 1995, during meetings over the Ninth Five-Year Plan, leaders from several interior provinces urged national leaders to provide aid and adopt policies to reduce regional inequality (Yang, 1997: 92). At the sessions of the NPC and the Chinese People's Political Consultative Conference in 1996 and 1997, legislators and satellite Party representatives from the

interior regions demanded that the center address the alarming disparity by translating its promise to support the interior regions into concrete policies, laws, projects, and investment (Zhonggong nianbao, 1997: 3-82-83; 1998: 1-130-131; 4-73). At the Third Plenum of the Central Committee of the Fifteenth Communist Party Congress in 1998, members of the Northwestern Group accused Guangdong, Fujian, and Hainan provinces of stealing their talent by offering high wages and, joined by the Southwestern Group, demanded that they (particularly Guangdong) be punished. These members also criticized the Central Committee for not fulfilling its pledge, made at the Fourteenth Party Congress of 1992, to reduce regional inequality and complained that underdevelopment had put psychological pressure on cadres and created social instabilities in the interior regions (Zheng Ming, November 1998: 16).

The fiscal reforms of 1994 not only adjusted taxes on various products but also introduced a new revenue-sharing arrangement between the central and provincial governments. The central government introduced these reforms purportedly to “reduce regional inequality in development” and “assist the development of economically undeveloped regions and the upgrading of old industrial bases” (Zhongguo caizheng nianjian, 1994: 85, 95).<sup>5</sup> Nevertheless, the central and western provincial governments did not raise their spending. In 1993, government spending in the central and western regions was at 79% and 98%, respectively, of the national per capita average. In 1998, those figures had fallen to 76% and 83%, a particularly big drop in the western region. In contrast, government spending in the coastal region increased from 120% to 130% of the national per capita average (see Table 3).

According to analysts at the Ministry of Finance, three developments related to fiscal reform lowered revenue in the interior. First, taxes on resource-extracting industries (concentrated in the interior) had increased, and taxes on the manufacturing and retail sectors (concentrated on the coast) had decreased. Second, the center required the provinces to remit the consumption tax on cigarettes and alcohol products—major sources of revenue in the interior provinces—to prevent local governments from overdeveloping these sectors for their own fiscal benefit (Project Group, 1998: 719). Third, unexpected changes in exports derailed the center’s reported plan to step up its fiscal

TABLE 3: Per Capita Fiscal Spending by Region

Region	Level (in yuan)			Ratio to National Level		
	1980	1993	1998	1980	1993	1998
Coastal	61	339	811	1.07	1.20	1.30
Central	54	223	472	0.94	0.79	0.76
Western	56	276	519	0.97	0.98	0.83
Nation	57	283	622	1.00	1.00	1.00

SOURCE: State Statistical Bureau (1996: 157, 180; 1997: 53; 1999: 113, 279); *Zhongguo caizheng nianjian* (1999: 395).

NOTE: The spending data are derived by dividing the spending by the population in each region. They are more accurate than the averages of the per capita spending of the provinces.

support for the interior regions. To stimulate exports, the center refunded taxes on them, and when export volumes soared—after rising from \$91.7 billion in 1993 to \$121 billion in 1994, they shot up to \$182.8 billion in 1997 (Project Group, 1998: 719; SSB, 1999: 578)—so did the expense of that rebate. In addition, in 1998, the rebates were increased on certain exports in response to the East Asian financial crisis (*Zhongguo caizheng nianjian*, 1995: 54-55). As a result, tax rebates on exports ballooned that year, severely straining the center's coffers and reducing the center's aid to the interior regions (Project Group, 1998: 719).

Fiscal data sketch the picture of the center's declining support and the interior regions' growing fiscal difficulties. Tax rebates on exports increased from 5.6% of the state's budgetary expenditure in 1993 to 6.8% in 1994 and to 9.1% in 1996. Meanwhile, aid to underdeveloped areas (most of which were in the interior regions) decreased from 0.47% of the budget in 1993 to 0.39% in 1994; the rise to 0.7% in 1996, though statistically large, provided only modest help to the region. Over this period, deficits as a percentage of budgetary revenue income in five provinces—Xinjiang, Tibet, Ningxia, Inner Mongolia, and Guangxi Ethnic Autonomous Regions, with all but Guangxi in the interior—swelled from 51.1% in 1993 to 141.8% in 1994; more aid from the center brought them down slightly to 120% in 1996 (*Zhongguo caizheng nianjian*, 1993: 591-2; 1994: 349-50; 1995: 344-45; 1996: 463-64; 1997: 391-92). Clearly, the interior regions, especially the ethnic autonomous regions, did not benefit from the center's fiscal reform in 1994.

Not surprisingly, among the officials from the three regions, those from the coastal region viewed the fiscal reforms of 1994 most positively. Those from the western region were most critical, blaming them for slowing the growth of manufacturing and not resolving their region's fiscal difficulties (Project Group, 1998: 719). The center thus realized that it had to address regional inequality and the interior regional leaders' discontent.

#### STIMULATING DOMESTIC DEMAND

In 1998, China started to feel the aftermath of the East Asian financial crisis, as Asian demand for its exports weakened. Even after the rebates on certain exports were increased, at a considerable cost (Zhongguo caizheng nianjian, 1995: 54-55; Project Group, 1998: 719), China's exports stagnated in 1998, totaling \$183.8 billion after the previous year's \$182.8 billion (SSB, 1999: 578). The government tried to stimulate domestic consumption at the end of the year by hastily lowering interest rates and increasing infrastructural investment (Tian, 2000a: 7-8). Nevertheless, the volume of domestic commerce grew only 7.7% from 1997 to 1998; at 7.8%, growth in GNP fell short of the official target of 8%.

Underlying this disappointing economic performance was a deeper structural problem—an oversupply of manufactured goods. Since the mid-1990s, production capacities have exceeded market demand (Tian, 2000a: 7). Thus, a nationwide industrial survey in 1995 indicated that for the 100 major products, only 31% of the production capacity was "well utilized" (i.e., their plants were using at least 80% of capacity) (Shi Qingqi and Zhao Jingche, 1999: 112).

At the same time, as Table 4 indicates, consumption of manufactured goods in the central and western regions remained far below that in the coastal region (Du Ping et al., 2000: 19; Tian, 2000a: 8). The interior regions thus constituted a potentially large market, as ownership of the goods listed in the table by peasant households in the central and western regions was less than two-thirds the rate of households in the coastal region; urban families show a similar pattern.

The infrastructure in the western region also lagged far behind that in the coastal region; between 1980 and 1999, the difference in transportation capacities grew. In 1980, highway density in the coastal

**TABLE 4: Number of Durable Consumer Goods per 100 Rural Households (1998)**

	<i>Bicycles</i>	<i>Sewing Machines</i>	<i>Color TV Sets</i>	<i>Washing Machines</i>	<i>Refrigerators</i>
Region					
Coastal	187	78	52	39	26
Central	122	67	28	21	4
Western	92	52	23	15	3
Nation	137	66	33	23	9

SOURCE: State Statistical Bureau (1999: 347-48).

region was 4.2 times that in the western region. By 1999, it was nearly 5 times, and the number of townships and villages without highway access in the western region was 20 and 2 times, respectively, that in the coastal region (PD, 7 September 2000). In 2000, the western region accounted for only 24.3% of the nation's land used for transportation purposes (PD, 6 September 2000).

The western region represents a sizable and largely undeveloped market. To tap it and thereby increase domestic consumption, the Chinese government must build the necessary infrastructure, stimulate job growth, and generate sustainable development.

*FORGING STRUCTURAL REFORMS: SOES,  
NONSTATE FIRMS, AND ENTRY INTO  
THE WORLD TRADE ORGANIZATION*

The performance of China's SOEs deteriorated sharply in the 1990s (Zhongguo jingji nianjian, 1998: 807). The portion of these money-losing enterprises with independent accounts, which ranged from 9.7% to 16% over the 1983-1989 period, rose to 27.6% in 1990 and 37.7% in 1996 (Zheng Haihang, Jiang Xiaojuan, and Zhang Chengyao, 1998: 33).<sup>6</sup> According to some estimates, more than one-third of the employees in state enterprises were superfluous in 1994 (Zheng Haihang, Jiang Xiaojuan, and Zhang Chengyao, 1998: 65), and state enterprises as a whole could not repay their bank loans in 1995. As a result, outstanding debts may have accounted for 22% to 25% of banks' assets in the mid-1990s (Zheng Haihang, Jiang Xiaojuan, and Zhang Chengyao, 1998: 74; Lardy, 1996: 340). In 1996, the government introduced a strategy of "grasping the large

**TABLE 5: Employment in the Nonstate Sector and Rural Enterprises (1998)**

<i>Region</i>	<i>Urban Labor Force in Nonstate Sector (%)</i>	<i>Rural Labor Force in Rural Enterprises (%)</i>
Coastal	44.7	40.1
Central	42.7	30.5
Western	32.0	15.8

SOURCE: State Statistical Bureau (1999: 136-37).

[SOEs], and letting go the small [SOEs]" (*zhuada fangxiao*). In March 1998, Premier Zhu pledged to improve the performance of large- and medium-sized SOEs within three years (Tang Yingwu, 1998: 540).

The interior regions had a larger state sector than the coast and faced greater difficulties in reforming the SOEs. Having grown more slowly than nonstate sectors for years, by 1994, state firms on average accounted for only one-third of the industrial output in the coastal provinces. By contrast, state firms produced 47% of the industrial output in the central provinces and an overwhelming 69% in the western provinces (SSB, 1996: 202-3). Nonstate sectors provided a larger share of urban and rural employment in the coastal region, and the difference with the western region was especially marked (see Table 5). In addition, from the mid-1990s on, SOEs in the interior provinces, particularly those in the northwest, had the highest net loss rate (i.e., the amount of losses relative to profits) (Zheng Haihang, Jiang Xiaojuan, and Zhang Chengyao, 1998: 38). The western developmental strategy is key to their reform—indeed, Jiang chose to explain the strategy at the Conference on the Reform and Development of SOEs in the Five Northwestern Provinces in Xi'an in June 1999—and aims at promoting the growth of the nonstate economy, especially rural enterprises and FDI; improving the performance of SOEs; and jump-starting the economy in the interior regions.

Chinese leaders also probably want to help the interior regions prepare for the country's entry into the World Trade Organization, which poses two difficulties for them. First, the inefficient SOEs that account for so much of their industrial output will be hard-pressed to compete against foreign firms. Second, officials and the population in the interior regions, long isolated from the world economy, will have to adjust to international economic norms. More accustomed to the command

or traditional economy, with its emphasis on the state sector, excessive regulations, and local protectionism, they must learn to deal with the market economy and competition (Du Ping et al., 2000: 21). The western developmental drive may help that learning process.

*IMPROVING THE ENVIRONMENT AND RESOURCE SUPPLIES*

Chinese leaders hope that the western drive can play a vital role in restoring China's ecological balance as well (Du Ping et al., 2000: 7, 45; Fang Li and Chen Zishun, 2000: 10-12), especially in controlling soil erosion and desertification. They also expect the western region to help ease water shortages in northern China and to supply energy and mineral resources to the rest of the country.

In recent years, China has been badly affected by floods, sandstorms, and water shortages, the first two caused mainly by soil erosion and desertification. At 2.62 million square kilometers, China's desertified area surpasses its total under cultivation. Since the 1970s, desertification has been increasing by 2,460 square kilometers a year and now equals 27.3% of China's land area. Currently, about 400 million people in eighteen provinces live with this threat. The number of serious storms in China has been increasing in recent decades, with 13 in the 1970s, 14 in the 1980s, and 23 in the 1990s (BR, January 24, 2000). Severe sandstorms hit Beijing in the spring of 2000, prompting Premier Zhu to warn that the national capital may have to move elsewhere should the problem continue. For centuries, soil erosion has haunted those living along the Yellow River, and in recent decades, it has started to trouble the population along the Yangtze. In 1998, an unprecedented flood devastated the provinces in the Yangtze's lower reaches, leaving 50,000 people dead or missing and resulting in losses exceeding 540 billion yuan (Zheng Ming, September 1998: 17).

Approximately 80% of the eroded area and 90% of the desertified area are in the western region, where the Yellow and Yangtze Rivers both originate (PD, 20 September 2000) and where deforestation poses an increasingly severe threat to those living downstream. Clearly, much work must be done there if the situation is to improve. Moreover, China's leaders are looking to the western region, particularly the water-rich southwest, to help northern China with its long-standing water shortages. The western region has 1,863.4 billion

**TABLE 6: Natural Resources in the Western Region (% of national total)**

<i>Minerals, Water, and Hydropower</i>	<i>Reserves (%)</i>	<i>Land Type</i>	<i>Area (%)</i>
Potassium	97	Unused	79.6
Nickel	62	Pastoral	72.3
Natural gas	58	Water surface	39.0
Platinum	57	Forest	38.3
Coal	30	Cultivated	28.6
Petroleum	23	Transportation	24.3
Underground water	12.5	Gardens	23.3
Hydropower potential	80.3	Residential, industrial, and mining	22.7

SOURCE: PD (6 September 2000); BR (10 July 2000: 19-20); Hao Xiaohui (2000: 54, 81-84).

cubic meters of water resources, equivalent to 52.5% of the national total (Chen Yao, 2000: 106-7). In addition, only 28% (totaling 12.3 billion cubic meters) of the region's exploitable underground water resources are extracted each year (BR, 10 July 2000).

Chinese leaders hope that the western region's resources can satisfy the nation's rising demand not just for water but for minerals and energy. Table 6 lists some of the main natural resources found in the western region. The western region contains more than half the nation's reserves in 13 of the 45 main minerals—including sylvite, nickel, platinum, phosphorus, mercury, and titanium—and 30% to 50% of the national reserve in another 9 (BR, 10 July 2000; Chen Yao, 2000: 102). Its energy resources are also relatively abundant. Between 1995 and 2020, China's annual consumption of coal, crude oil, natural gas, and electricity is projected to grow by 2.5%, 4.4%, 8.6%, and 6.4%, respectively (Research Group, 2000: 158-59). China is richly endowed in coal and hydropower resources yet poor in petroleum and natural gas (Research Group, 2000: 162). The western region contains 80% of the nation's potential hydropower and 58% of the nation's natural gas reserves.

#### SECURING NATIONAL SECURITY AND UNITY

Two-thirds of China's international borders surround the central and western provinces. Twenty of the 55 ethnic minorities in these provinces straddle the borders (Du Ping et al., 2000: 7)—Koreans across Jilin and North Korea, Mongolians across Inner Mongolia and

neighboring Mongolia, and so on. Even though the western region is home to only 23% of the nation's total population, it accounts for 56% of the nation's ethnic minorities, who constitute a significant share of the population in several provinces: 94% in Tibet, 61% in Xinjiang, and 35% in Ningxia and Qinghai (SSB, 1999: 38, 113).

The most vocal and most serious separatist movements are in Xinjiang and Tibet (Tian, 2000a: 6-7), probably because of the provinces' demographics and history. Chinese influence in Central Asia started as early as the Han dynasty yet continued only intermittently until the Qing. In the late 1750s, the Qing government conquered Xinjiang and took measures to consolidate its not always firm control, establishing Xinjiang as a province in 1884 (Mackerras, 1994: 35-38). An uprising in 1944 led to the East Turkestan Republic, but its government was driven into exile in 1949 by the People's Liberation Army, fleeing first to India and then to Turkey. Tens of thousands of Uighurs, a largely Muslim Turkic people, continued to leave in waves—first in 1962, as Sino-Soviet relations deteriorated (Kaifang, July 1998: 57; Mackerras, 1994: 94, 171-72), and then in 1997, after the rebellion in Yining; large communities formed in Kazakhstan and in Turkey. Many of these exiles, as well as a considerable number of Uighurs in Xinjiang, resent the Han immigrants in Xinjiang and attack the central government for testing nuclear weapons and locating prison camps there (Kaifang, July 1998: 58; FEER, 13 April 2000; Becquelin, 2000). Since 1990, Beijing has intensified its efforts to control Xinjiang, but the result may have been a backlash. According to Nicolas Becquelin (2000), measures such as encouraging Han migration and sponsoring land reclamation seriously aggravated competition for limited jobs and educational opportunities in the cities and for limited land and water in the countryside, led to discrimination against the minorities, and helped produce a series of violent incidents.

The breakup of the Soviet Union and the rise of the Central Asian republics, as well as NATO's protection of Kosovo, have recently fanned hopes for a pan-Turkic revival, especially among young separatists (FEER, 13 April 2000: 25; Ming Bao, 2 September 1999; SCMP, 28 August 2000; Mackerras, 1994: 194-96). On 14 December 1998, 300 separatists in Ankara founded the Eastern Turkestan National Center, aimed at winning Xinjiang independence. Turkish

legislators and a government spokesman applauded the meeting, and with the support of the U.S. Congress, Radio Free Asia soon launched the only Uighur radio program outside Xinjiang (<http://www.singtao.com/news>, 14 December 1998; [http://www.future-china.org.tw/spcl\\_rpt/uygr/ugr19991013.htm](http://www.future-china.org.tw/spcl_rpt/uygr/ugr19991013.htm), accessed 22 August 2001). Saudi Arabia reportedly gave the separatists funds and advice, and China's neighbors (including Afghanistan) provided both training and entry into China (<http://www.mingpao.com>, 18 August 1998, 2 September 1999).

Violence had already been on the rise in the 1990s; official Chinese sources suggest that explosions, assassinations, and other violent acts in the decade numbered in the thousands. In 1998 alone, more than 70 serious incidents occurred, causing more than 380 deaths (Becquelin, 2000: 87). Three confrontations were especially serious. One was an armed rebellion in the Baren township in Akto county in April 1990 (Mackerras, 1994: 174). Another was a riot in Yining in February 1997 when thousands Uighurs first demonstrated, demanding East Turkestan independence, and then rioted, setting buses and police cars on fire, attacking Han, and storming stores and governmental offices. The third was a clash between police and nearly a thousand Uighur youth rallying in Yining on 24 April 1997 as they tried to save 30 separatists convicted for the previous riot, including 3 who had received death sentences (Zhonggong nianbao, 1998: 1-131). Southern Xinjiang, where unemployment and economic problems are severe, as well as Yining, a political base for the former East Turkestan, appear to be hotbeds for separatism.

To contain separatism, Beijing has stepped up its efforts to develop Xinjiang and improve its living standards. It has also looked to its neighbors. In April 1996, China, along with Kazakhstan, Kirghizstan, Russia, and Tajikistan, launched the first "Shanghai Five" summit on regional security, aimed at countering separatism, terrorism, and religious extremism; the group was renamed the Shanghai Cooperation Organization after Uzbekistan joined in 2001 (EPD, 11 June 2001; CNN, 14 June 2001). Those countries, together with Turkmenistan and Nepal, pledged not to support separatism against each other (Zhonggong nianbao, 1997: 1-21, 1998: 1-137; Becquelin, 2000: 70-71). Since the 11 September 2001 attacks on the United States, Beijing has stepped up its crackdown on Muslim militants, declaring

militants for East Turkestan to be terrorists (SCMP, 27 September 2001; <http://cn.news.yahoo.com>, 16 November 2001).

The Tibetan independence movement is more peaceful and has gained greater sympathy from the West and India. In March 1959, after a failed revolt against Chinese rule, the Dalai Lama, the spiritual leader of the Tibetans, fled to India (Mackerras, 1994: 151). Since then, his fight for Tibet's independence has earned support from the West. In the 1980s, the CCP attempted to undo the harm that Mao's radical policies had inflicted on Tibetans. But as corruption intensified, as young Tibetans' expectations far exceeded actual economic improvements, and as nuns, monks, and discontented urban Tibetans supported Tibetan independence, repeated protests and violent riots erupted. The most serious confrontations occurred in October 1987, March 1988, and March 1989 (Mackerras, 1994: 153-63; Xu Mingxu, 1999: 311-56).

The Dalai Lama and Beijing have disagreed over the best political arrangements for Tibet. In his 1987 address before the U.S. Congress and in his 1988 address to the European Parliament, the Dalai Lama proposed Tibetan autonomy—the withdrawal of Chinese troops and Tibetan control of their domestic affairs, rather like the “one country, two systems” solution that Beijing offered to Taiwan (Mackerras, 1994: 185-88; He, 2000). Under pressure from his pro-independence supporters, he backed away from this suggestion in 1992 but repeated it in 1996 (He, 2000; “Sino-Tibetan Negotiations,” at <http://www.tibet.com/Proposal/index.html>, accessed 23 August 2001). Nevertheless, Beijing is unwilling to concede even that much.

To Beijing's anger, the Dalai Lama has continued to invite the West to condemn China and to involve itself in affairs that Beijing regards as purely domestic. In 1987, the U.S. Congress condemned China for human rights abuses in Tibet and for sending in millions of Han to “submerge the Tibetan population” (Mackerras, 1994: 187).<sup>7</sup> In 1997, the Dalai Lama visited Taiwan and established a liaison office in Taipei. That April, he met with U.S. President Clinton and Vice President Gore, prompting protests from China. On 31 October, the U.S. State Department appointed a high-ranking officer as a special commissioner on Tibetan affairs, a move viewed by Beijing as blatant interference. Following the U.S. lead, in November the Australian Senate

asked its government to appoint a special commissioner on Tibet. In addition, separatists protested in front of Jiang against China's policies regarding Xinjiang, Tibet, and Mongolia during his visit to the United States in October 1997 (*Zhonggong nianbao*, 1998: 1-132).

Inner Mongolia also has a separatist movement, although it is far less influential. A widespread and violent purge under Mao of alleged members of a separatist organization and continued Han colonization caused discontent that led to student strikes in 1981. As the state handled the protests in a relatively peaceful manner and agreed to the Mongols' demands that they be allowed to follow their pastoral traditions instead of producing grain, tensions eased, though not fully (Jankowiak, 1988). In 1991, two leaders and their followers in a study group near Huhhot were sentenced to short prison terms and house arrest for allegedly advocating separatism; presumably, they were seeking a completely independent Mongolia (Mackerras, 1994: 163-64). In Shangdu, Huade, and a few other places in Inner Mongolia, in September 1997, armed rebels demanded the establishment of a Mongolian republic, attacked local authorities, and held cadres as hostages. The police and government troops finally quelled the fighting, but there were 130 casualties (*Zhonggong nianbao*, 1998: 1-133).<sup>8</sup>

Chinese leaders' fears of foreign involvement in China's ethnic affairs are rooted in history. Before the 1959 Tibetan rebellion, the CIA trained Tibetan guerrillas for combat against the People's Liberation Army (Mackerras, 1994: 179; Knaus, 1999). NATO's intervention in the ethnic conflict in Kosovo only served to heighten Beijing's worries that the West might attempt to intervene if ethnic conflict in Tibet and Xinjiang should escalate. By initiating the western development program, Beijing hopes to lift the living standard of ethnic minorities, rid separatism of its economic catalysts, and minimize the ethnic clashes and opportunities for Western interference.<sup>9</sup> It is probably no coincidence that Jiang spelled out the western development strategy in June 1999, shortly after NATO's bombing of the Chinese embassy in Yugoslavia. While NATO expressed regret over its mistake, China insisted the bombing was deliberate, to punish it for opposing NATO's military intervention in Kosovo.

*IMPLEMENTATION**APPROACHES AND TIMETABLE*

The center has adopted a multifaceted approach toward western development. First, remembering the enormous economic losses that earlier mass economic campaigns had created, Jiang warned against “rushing headlong into mass action.” Instead, he urged officials to conduct project analyses, adopt policy measures, and prepare for long-term efforts (PD, 4 September 2000). Second, the national government favored development that took into account the economy, ecology, and society of the interior regions and would produce both economic and social benefits. Third, the center planned to combine its macroeconomic regulations with market adjustments. The Leading Group to Develop the Western Region (*Xibu diqu kaifa lingdao xiaozu*) was formed on 16 January 2000. Zhu Rongji and Wen Jiabao, the premier and vice premier, became its director and vice director, and seventeen ministers, along with two ministerial-level party officials, became members of the group (Chen Yao, 2000: 264-65). The center called on the provincial governments in the western region to create a favorable investment environment as well as a market for fair competition (PD, 19 September 2000). Given that the state sector accounted for only 28.2% of the national industrial output and that state budgetary appropriation and domestic bank loans accounted for 23.7% of total investment in fixed assets, the center realized that its role in allocating resources to the west was limited. Nevertheless, it can guide market forces: by fashioning regulations and laws to draw nonstate investment to the interior regions and devising fiscal policy to support projects there, it can make the western and central provinces attractive for investment and skilled labor (SSB, 1999: 421, 183; PD, 4 September 2000). Finally, weighing its limited resources against the vastness of the underdeveloped interior, the center has chosen to target key areas (*zhongdian quyu*)—those with relatively firm economic bases and high population densities—close to transportation routes and hubs or along the Eurasian “Land Bridge” (*Ouya dalu qiao*) (i.e., the Eurasian corridor), the Yangtze, and the waterways in the southwest with outlets to the ocean. The center intends to use projects in

these areas as engines to generate growth across the region (ZBO, 30 October 2000).

Recognizing the daunting scope of the task, Jiang predicted that it might take the nation decades or even the entire 21st century to develop the west (PD, 4 September 2000). In the intermediate term, leaders in charge of economic planning and development have aimed at progress in constructing infrastructure, protecting ecology, using comparative advantage, and spurring growth in the local economy. The Ministry of Communications, for example, has planned to overhaul the transportation system in the west by 2010, build up the primary rail lines by 2020, and provide a modern railway system by the middle of the 21st century. The leaders also want to halt and then reverse the growing disparities in development between the western region and the coastal and central regions (ZBO, 30 October 2000; PD, 7 September 2000).

Most of the projects that the center has launched or planned focus on developing a reliable infrastructure, a favorable environment for investment, and a qualified and hardworking labor force. They also seek to maintain the ecological balance of the western region, which in the long run will help sustain growth and raise the local standard of living.

#### INFRASTRUCTURE

Most of the investment has been dedicated to developing transportation, energy, communication, and irrigation and improving urban infrastructure in the interior regions (PD, 24 January 2000; Tian, 2000b: 3). The center has announced three measures to build a road system in the west (PD, 7 September 2000). First, eight national highways (*guodao*) of 12,600 kilometers will be built to connect the country's major cities, linking Dandong and Larsa, Qingdao and Yinchuan, Shanghai and Chengdu, Shanghai and Ruili, Hengyang and Kunming, Erenhot (of Inner Mongolia) and Hekou, Lianyungang and Korgas (near Huocheng, Xinjiang), and Chongqing and Zhanjiang. Second, the state will accelerate its construction and upgrading of regional, interprovincial, and local highways in the western region, building 210,000 kilometers of roads. Key are eight interprovincial highways,

four of which connect the central and western regions: they will link Lanzhou and Panhan (in Yunnan), Baotou and Beihai, Altay (Aletai) and Kunjirap Daban (in Xinjiang), Yinchuan and Wuhan, Xi'an and Hefei, Changsha and Chongqing, Xining and Korla (in Xinjiang), and Chengdu and Zhangmu (of Tibet), totaling 15,000 kilometers. Third, the state will build 150,000 kilometers of roads between townships and villages in the west (PD, 7 September 2000). In 2000, 9,000 kilometers of roads and 1,000 kilometers of highways were built, and progress was made in building roads in counties below the official poverty line (SDPC, 5 March 2001).

To develop the western region's railway system, the center will expand the railway network and build east-to-west as well as internal and external routes. The state started the construction of the Xi'an-Hefei section of the Xi'an-Nanjing Railway and the Chongqing-Huaihua Railway in 2000, as well as the Qinghai-Tibet railway in 2001 (SDPC, 5 March 2001, 16 August 2001; MOR, 20 December 2000, 29 June 2001). An elevated light railway in Chongqing is also under construction, and international railways are under study (SDPC, 5 March 2001; ZBO, 30 October 2000). The vice minister of railways pledged that for five years, 40% of the total construction funds would be devoted to the west (CD, 23 October 2000).

The center also plans to upgrade and enlarge airports as national or regional hubs, targeting twenty of them (ZBO, 30 October 2000; PD, 5 September 2000). Xianyang International Airport in Xi'an, Shuangliu Airport in Chengdu, Wujiaaba Airport in Kunming, Zhongchuan Airport in Lanzhou, and Urumqi Airport are to be expanded or built as communication hubs; construction reportedly began in 2000 (BR, 19 June 2000: 17-18; SDPC, 5 March 2001). River lanes, as well as telecommunication and television transmission networks, will also be developed (PD, 19 September 2000).

Large reserves of natural gas have been discovered in Xinjiang, especially in the Qaidam Basin; its clean energy can replace polluting coal in Lanzhou, Xining, and the Yangtze Delta. Plans for a gas pipeline 4,200 kilometers long, passing through eight provinces as it runs from the Qaidam Basin to Shanghai, are being assessed. Investment in the initial stage of the project is projected at around 120 billion yuan, annually yielding 12 billion cubic meters of gas (SDPC, 26 March 2000; PD, 4 September 2000). Construction of the Sebei Qaidam

Basin-Xining-Lanzhou Natural Gas Pipeline began in 2000, and three similar projects to transport gas from Shaanganning, Tarim Basin, and Sichuan are on the drawing board (PD, 29 December 2000; ZBO, 30 October 2000). In addition, three west-to-east power generation and transmission systems—relying on hydropower in the southwest and in the upper and middle reaches of the Yangtze, as well as hydropower and high-quality coal in the upper and middle reaches of the Yellow River—have been planned (ZBO, 30 October 2000; PD, 10 August 2000). The exploitation of hydropower in the southwest was inaugurated in late 2000 (PD, 8 November 2000).

Finally, several large- and medium-scale irrigation projects that will improve the use of water resources, especially in the northwest, have been planned. Construction of a water conservancy and hydropower project at Zipingpu in the upper reaches of the Minjiang River in Sichuan started in 2001, and a similar project is slated for Shapotou on the Yellow River in Ningxia (BR, 19 June 2000: 17-18; SDPC, 5 March 2001, 12 April 2000; PD, 29 March 2001). Three routes for diverting water from the water-abundant southwest to the water-scarce north are under examination. The eastern route will use the Grand Canal to transport water from the lower reach of the Yangtze to Shandong, Hebei, Tianjin, and Beijing; the middle route will use an elevated canal through the Danjiangkou Reservoir to transport water from the Three Gorges Reservoir to the north; and the western route will divert water from the upper reaches of the Yangtze, Yellow, Yarlung Zangbo, Nu, and Lancang Rivers to Lanzhou, transferring it westward to Xinjiang and eastward through the Sanggan River channel to the north (Zheng Ming, February 2000: 47; Jing Bao, April 2000: 40-41).

#### *ENVIRONMENTAL PROTECTION*

The state also wants to promote environmental protection as it develops the west, hoping to control such ecological disasters as floods, draughts, and sandstorms. The state has outlined three key environmental projects. The first is afforestation in the upper reaches of the Yangtze River down to the Three Gorges Reservoir area, as well as in the upper and middle reaches of the Yellow River to the Xiaolangdi Reservoir area. In 772 counties in thirteen provinces, including

Yunnan, Sichuan, Shaanxi, and Gansu, the cutting of natural forests will be prohibited, trees and grass will be planted on barren hills and wasteland, and hillside farmland will be restored to forest and pasture (PD, 6 November 2000; BR, 19 June 2000).

The second project aims at controlling deserts in dry, windy, and dusty areas in the northwest, far north, and western part of the northeast. Restored forests and pastures and expanded oases in these areas will provide ecological barriers to desertification. The state has set aside 276 square kilometers for this purpose.

The third project is the fourth phase in the ongoing construction of shelter forests in the northwest, north, and northeast. These eight shelter forests will be along the Tian Shan and Altay Shan in Xinjiang, in the dry area of the northwest, around Beijing and Tianjin, on the Xinlin Gol plateau in Inner Mongolia, along the Yin Shan in Inner Mongolia, in the Songhua and Nen River valleys, in the Liao River valley, and in the agricultural area on the Songliao plain (PD, 6 November 2000).

To achieve these ends, the state will "return farmland to forests and pastures, close off mountains from logging, breed saplings, substitute grain for poverty aid, and contract with individuals" (*tuigeng huanlin/cao, fengshan lühua, yi liang dai zhen, geti chengbao*) (PD, 4 September 2000). In pilot projects, the state is providing the peasants with free grain and seedlings to afforest plains and mountains, as it combats desertification with shelter belts of trees and other projects (PD, 4 and 20 September 2000; BR, 19 June 2000: 17-18). By the end of 2000, in the seventeen provinces that conducted pilot projects, 752,667 hectares of cultivated land had been restored to forest and pasture, and trees and grass had been planted on 524,667 hectares of barren hills and plains. Between 1998 and 2000, 5.67 million hectares of forest were planted (Zeng Peiyan, 2001: 92). Yet insufficient funding seems to be hindering these projects. A journalist reported that forestry agencies in the western region were ignoring the ban on logging because the state failed to supply sufficient funds to replace lost logging revenue (PD, 29 December 2000).

SECTORAL AND ECONOMIC ADJUSTMENTS

The state is also promoting sectors that rely on the west's comparative advantages in minerals and other resources, crops (such as fruit in Xinjiang), and cattle, as well as emphasizing tourism and related service sectors. In addition, the state is encouraging high-tech industries to locate in the west (Tian, 2000b: 11-12).

There are plans to build the nation's primary sites for processing potassic and phosphate fertilizers, nonferrous metals, rare earth, food, and livestock in the west; the growing of high-quality cotton, sugar, vegetables, flowers, fruits, herbs for Chinese medicine, and tobacco is slated to receive particular attention. The center also plans to build the nation's primary site for the comprehensive usage of natural gas and petroleum in the west (PD, 8 October 2000; ZBO, 30 October 2000). The Qinghai potassic fertilizer project was launched in 2000 to take advantage of the rich potash resources in its saltwater lake (BR, 19 June 2000: 17-18; Zeng Peiyan, 2001: 91).

The western region's great variety of cultural, historical, and natural attractions—ranging from the Qin terracotta soldiers in Xi'an, the reliefs from the Tang dynasty on the Silk Road and the Great Wall, to the desert, the high and mysterious Tibetan plateau, and the tropical scenery in Xishuangbanna in Yunnan (Du Ping et al., 2000: 115-16)—suggest that tourism could be very important in its future. Casinos are prohibited there because the state fears they might create serious social problems (CD, 2 August 2000).

The state is also striving to encourage and upgrade the industries in the region, assisting the reform of SOEs, promoting the growth of collective and private enterprises, and pushing forward the reform of governmental management (PD, 4 September 2000; ZBO, 30 October 2000). The western region already leads the nation in the aerospace, aviation, and nuclear industries and is competitive in electronics, new materials, solar power, and biotech. It is hoped that these sectors can support the development of high-tech industries in the region (Bai Guang, 2000: 3.375-78; Tang Rong'an and Li Yongtai, 2000: 279).

*HUMAN CAPITAL AND R&D*

The west lacks the funding and facilities to train and retain talent, whether scientists, teachers, or managers. In 1994, the years of education averaged 7.9 for those living in Beijing and 7.5 years in Shanghai but only 4.4 in Qinghai and 1.8 in Tibet (Fang Li and Chen Zishun, 2000: 500). For this reason, one of the center's priorities in the western development program is to improve funding and support for research facilities, technical training, and college education, as well as to introduce advanced and applied technology. The Ministry of Personnel (MOP) formulated "A Plan for Human Resource Development in the West" in 2000 to attract talent in science, technology, and management by offering high wages and good compensation, waiving the requirements on changing residency, asking cities in the developed region to send some of their talent to the west, and organizing advisers to tour the west and provide advice. Together with the Ministry of Education, the MOP is drafting policies to encourage outstanding university students and young teachers from the coastal region to relocate to the west (PD, 4 September 2000). In 2000, the state also increased funding in the interior regions to universities and colleges as well as to technical training centers in counties below the official poverty line. As a result, the training capacities of these tertiary institutions expanded by about 10% (Zeng Peiyan, 2001: 92).

Finally, the state has started to pay attention to population growth in the west (PD, 20 September 2000) after finding that many villages had violated the family planning policy and allowed three or more children per family. This put great pressure on fragile ecosystems, particularly in the northwest (PD, 9 October 2000). Not surprisingly, both Jiang Chunyun, the vice chairman of the Standing Committee of the National People's Congress, and Tian Xueyun, the vice director of China's Demographic Society, declared that population planning, along with education, should be emphasized in western development (PD, 7 September 2000; Snweb, 4 November 2000). However, this new policy may worry the ethnic minorities, especially the Uighurs, who interpret population control and Han immigration into Xinjiang as attempts to dilute their numbers.<sup>10</sup>

## FOREIGN INVESTMENT AND TRADE

In response to the interior regions' having the smallest share of the nation's FDI, the state has promulgated the following set of preferential policies (PD, 8 September 2000).

- The state published *A Catalogue of Advantaged Industries for Foreign Investment in the Central and Western Regions*. These select investment projects will enjoy existing favorable tax treatment. After the treatment expires, they will be liable for three years to an income tax of 15% (compared to the normal 33% levied on enterprises).
- The state will offer FIE treatment to any reinvestment project in the central and western regions made by FIEs in which foreign funds account for at least 25% of the total investment ([www.moftec.gov.cn/moftec\\_en/xbkf/xbkf\\_04.html](http://www.moftec.gov.cn/moftec_en/xbkf/xbkf_04.html), accessed 22 August 2001).
- FIEs in the coastal region can manage FIEs and Chinese enterprises in the central and western regions.
- Provinces in the central and western regions may upgrade an existing developmental zone in the capital cities into a national economic and technological developmental zone. Eleven developmental zones had been upgraded by September 2000.
- FIEs can extract minerals on their own or jointly with a Chinese partner in the western region; they will enjoy a reduction in or exemption from mineral compensation and usage fees (PD, 19 October 2000).
- With certain restrictions on their stock shares, FIEs can construct branch railways as well as local railways, urban subways, bridges, tunnels, and harbors in the central and western regions. They can also invest in projects to extract, store, process, and pipe oil and gas.
- In principle, the state will allow foreign investment pilot projects in the services and trading sectors, including domestic and external trade and tourism (PD, 19 October 2000).

In the first six months of 2000, utilized FDI in the west totaled \$440 million, up 19% from the previous year. Although its share of the nation's total FDI increased only 0.56%, the improvement is significant, as in 1997 that share was 3.5% (PD, 8 September 2000). In addition, the World Bank reportedly pledged to lend the west \$1 billion between 2000 and 2002 (Tang Rong'an and Li Yongtai, 2000: 283). The Chinese government seeks to give the region a key role in international trade. It plans to make the Eurasian Land Bridge a new silk road, expanding markets in Central Asia for export of the west's light indus-

trial goods and increasing the import of machinery and even raw materials needed in the west (Fang Li and Chen Zishun, 2000: 398-413).

#### *RAISING LIVING STANDARDS IN THE WESTERN REGION*

An important goal of the western development program is to improve living standards, especially those of the ethnic minorities. By building infrastructure, attracting foreign capital and skilled labor, and improving the environment, as discussed above, the center hopes to accelerate the growth of the local economy and create jobs and income for local inhabitants. For example, the Qinghai-Tibet railway under construction will help ease the transportation bottleneck on existing highways, smooth the flow of goods in and out of Tibet, spur economic growth in Tibet, and help increase the income of Tibetans (BR, 12 April 2001: 16-17). In addition, the state plans to increase its financial support for counties below the official poverty line and for education, science, technology, sanitation, social security, and antipoverty programs, as well as to restrain population growth (PD, 18 October 2000, 3 November 2000). The state also plans to improve the well-being of ethnic minorities by increasing land available for pasturage and ensuring the production of items much needed in daily life (PD, 21 March 2001, 18 October 2000).

#### *PROSPECTS*

By and large, Chinese leaders view the western development program as a long-term project for which they do not want to sacrifice the growth in the coastal region (PD, 20 September 2000). Emphasizing multifaceted and sustainable growth, they are focusing on improving infrastructure, providing incentives for investment, protecting the natural environment, forging economic adjustment, nurturing human capital and sectors with a comparative advantage, and aiding the poor.

So far, the government has invested substantially in the west. In 1999, the Industrial and Commercial Bank, the largest state-owned commercial bank, approved loans of 6.7 billion yuan (\$807 million) for the technical upgrading of key SOEs and high-tech companies in the west (CD, 13 June 2000). In 2000, the state budgeted about 27

billion yuan for basic construction in the region. From the funds that it raised through debt issues in 2000, the state invested another 43 billion yuan. In addition, in 2000, 76.2 billion yuan of loans from the state banks was invested in large- and medium-sized basic construction projects in the west, along with another 20 billion yuan in ten major projects. And between January and September 2000, basic construction investment in the central and western regions grew at 19% and 18.4%, respectively, over the previous year, far exceeding the 5.1% recorded in the coastal region (MOC, 9 August 2001; Snweb, 20 October 2000).

In the first half of 2001, total investment in fixed assets in the twelve western provinces amounted to 171.1 billion yuan—some 30% more than in 2000 and more than 10% higher than the increase in the coastal and central regions.<sup>11</sup> During this period, the GDP of the western region grew by 8.5%, moderately higher than the national average (MOC, 9 August 2001). This evidence suggests that the center has already begun heavily financing its western development program and has achieved modest results.

Yet a number of roadblocks stand in the way of China's western drive. The first set arises from underdevelopment: infrastructural, structural, political, and cultural. Poor infrastructure, inadequate human capital, slow flow of information, a dominant state sector, traditional and antimarket ideas, and corruption continue to plague the western region (Du Ping et al., 2000: 235-55). It will take decades for the needed infrastructure to be built, for human capital to be developed, for the nonstate economy to outgrow the state sector and create jobs for the millions of workers laid off from state firms, and for officials and citizens to change their antimarket habits.

In particular, predatory and wasteful habits, inefficiency, and unfamiliarity with the market and legal norms hinder the building of a favorable investment environment in the west. In Guizhou, Shaanxi, and Qinghai, officials reportedly misappropriated half of the funds for aiding the poor (*fupin jijin*), using a portion to build themselves houses, purchase vehicles, entertain guests, and fund overseas trips (Zheng Ming, August 2000: 26). According to a journalist's report, in a number of poor western counties where local officials claimed that employees had not received wages for months, cadres drove brand-new and expensive imported cars, used fashionable cellular phones,

and entertained guests with seafood flown in from the coast. And after promising an investor numerous benefits, some officials failed to carry through on their promises; instead, they charged ad hoc fees and even cut off power and sabotaged the road, possibly in an attempt to extract bribes (PD, 9 October 2000; Jing Bao, July 2000: 34-35). There is a danger that western development may increase, rather than decrease, corruption and popular discontent (Xin Bao, 22 February 2000: 26). Governmental inefficiency in the west is also a problem: one German firm found it took a year to get a business license and another year to get the right to use the land it needed (SCMP, 17 April 2000).

While red tape can be cut within months, old habits and ways of thinking may take years to change. After decades of underdevelopment and reliance on aid from the center, many officials and people from the west may view the center's investment as an overdue welfare program and may see potential investors as ripe for extortion (Jing Bao, July 2000: 34-35; SCMP, 24 October 2000). Changing the attitudes of both officials and the general population is thus a prerequisite for sustainable development in the west, as some leaders in the region are aware. Qinghai Vice Governor Ma Peihua, for example, has declared that competition will be introduced in recruitment for government posts and that middle-level cadres who are not qualified will be removed (SCMP, 22 June 2000).

The second set of obstacles arises from ethnic tension (Goodman, forthcoming). The Han population tends to receive better education and possesses higher skills; in addition, Han are sometimes willing to take less respectable jobs, such as shoe repairing, which some ethnic minorities refuse (Tang Rong'an and Li Yongtai, 2000: 250-51; Ji and Gao, 1994: 248, 254). Thus, as the west is developed, Han may economically outperform other ethnic groups. Furthermore, the new development program may attract a large number of Han immigrants to the interior regions and thereby intensify competition between them and ethnic minorities for jobs, educational opportunities, water, and other resources (Ji and Gao, 1994; Becquelin, 2000: 84-86). Moreover, some conservative Muslims among the Uighurs in Xinjiang may resist further secular and modern development and may call more loudly for separation from China (Mackerras, 1998: 34-35, 37-43). Even if greater economic development can reduce income

disparities between the Han and the ethnic minorities, other problems may emerge. For some, gains in economic well-being and education may actually heighten their sense of ethnic identity (Jing Bao, April 2000: 29; Ji and Gao, 1994: 237). Given these potential ethnic tensions, the western drive may encounter fewer difficulties in those western provinces that have a larger Han population and are less underdeveloped.

The third problem is that there are limits to the political support that the center can hope to garner. So far, officials in the western region have been enthusiastic about the development program, whereas a significant number of local residents have been rather indifferent (<http://www.mingpao.com>, 2 June 2000). It is also possible that in the coming decades, development will raise the interior residents' expectations for immediate improvement. Should the center fail to deliver, they will be deeply disappointed and thus more likely to protest.

The final obstacle is that market forces may thwart the state's plan, especially efforts to develop resource extraction, agriculture, and animal husbandry (Tang Rong'an and Li Yongtai, 2000: 227-28), which may be inefficient and unsustainable in the long run. Some of the minerals in the interior regions are in medium- or small-scale deposits, and extraction costs are high; the coastal region can obtain these raw materials at lower cost from the world market, where they are abundant and cheap. The excess capacity of manufacturing further weakens the demand for raw materials and inputs. Similarly, the recent oversupply of grain in China has led to a decline in the prices of agricultural products. In addition, hampered by stricter environmental regulations in the coastal region and attracted by the west's inexpensive labor, a number of polluting industries may relocate to the region, aggravating its already critical environmental problems.

Notwithstanding these potential difficulties, it is also fair to say that the western drive may have immediate payoffs. Economically, large infrastructure projects will provide jobs for the local population and will stimulate the local economy. Once transportation improves, the west will become an appealing destination for tourists, and the domestic and international commodity trade may steadily expand. The west can also offer inexpensive labor. Businesses in the coastal provinces as well as Hong Kong and Taiwan can shift their low-tech and labor-intensive industries to those interior areas that have a tolerable

infrastructure and a qualified labor force. Some labor-intensive products made in Sichuan are already successfully competing against those made in the coastal region.

Chongqing, Xi'an, and Lanzhou, in particular, are densely populated, have an extensive educational system that includes academic research, and can offer cheap land and inexpensive labor. These cities may thus become centers of production and distribution for manufactured goods. Like Chengdu, Mianyang, and Xichang in Sichuan, they even have sizable groups of scientists and technicians and good facilities for developing aerospace, aviation, electronics, information, and nuclear technologies, as well as new material science and transportation industries (Du Ping et al., 2000: chap. 8; Bai Guang, 2000: 3.359-78).<sup>12</sup>

Politically, the growth of these cities and neighboring areas may ease the local resentment of the Han. If inequality between ethnic groups remains at tolerable levels or lessens, and if all these groups experience an immediate improvement in their living standards, the regime may win their loyalty, as it did in the coastal region between 1978 and 1994. In addition, an influx of government funds and capital in areas where ethnic minorities are numerous may increase the revenue available to their elites, thereby possibly reducing their discontent and making them less inclined to lead or tolerate protests. As the gap between the interior and the coastal regions is reduced, and as living standards of those living in the interior regions improve, ethnic separatism may lose some of its appeal. Although in the near future the government's economic and political benefits may be limited, in the long run they may be considerable—but, as these considerations suggest, more likely in those western provinces with a smaller ethnic population.

#### NOTES

1. Throughout, "the west" refers to the western region of China; "the West," the Western developed countries. See Goodman (forthcoming) for further discussion of the definition of the west in Mao's and the reform era, as well as the western development program.

2. The percentages do not sum to 100 percent because the regional destination of some investment was unclear.

3. The shares of open areas in provincial industrial output are the average of those in 1980, 1982, 1986, 1990, and 1993 (SSB, 1990, 1996: 202-3; various provincial yearbooks).

4. This point is demonstrated by the following data on the sectoral composition in the coastal, central, and western regions in 1978 and 1998. Between 1978 and 1998, the tertiary sector grew from 21% to 40% of the gross domestic output in the coastal region, from 18% to 32% in the central region, and from 20% to 36% in the western region. In 1998, the primary sector produced only 16% of the gross domestic product in the coastal region, 23% in the central region, and 25% in the western region (SSB, 1990: 54; 1999: 65).

5. For more details on the fiscal reform, see Wong (1997: 33-34).

6. In 1994, 34.3% of all state enterprises versus 22.5% of all enterprises were in the red. The ratio of total losses in money-losing state firms with independent accounts to total profits of profitable state firms increased from 0.036 to 0.084 between 1983 and 1989, to 0.195 in 1989, and to 0.356 in 1993 (Zhongguo jingji nianjian, 1995: 603).

7. In the second charge, the area might be Greater Tibet, which consists of the Tibet Autonomous Region (TAR) and neighboring areas. Within the TAR, Tibetans still account for more than 90% of the population.

8. Tensions also reportedly exist between the Han and the Dai, who reside mainly in Yunnan (Mackerras, 1994: 165).

9. Goodman (forthcoming) argues that China's leaders use the western drive to further nation building and to colonize the ethnic minority regions.

10. On the Uighurs' resentment over Han immigrants and population control in the 1990s, see Becquelin (2000) and Mackerras (1998).

11. When disclosing the data, the government did not list the twelve provinces, which probably comprised the ten western provinces in Table 1 plus Inner Mongolia and Guangxi.

12. Near Central Asia and as the capital of a province of 17.5 million inhabitants with abundant natural resources and many tourist sites, Urumqi may attract investors as well. Militant separatists, however, may create uncertainties that discourage investment.

#### ABBREVIATIONS FOR WEB SITES

(The dates given in the text for Web sources are the posting dates.)

BR	<i>Beijing Review</i> , <a href="http://www.bjreview.com.cn">http://www.bjreview.com.cn</a>
CD	<i>China Daily</i> , <a href="http://www.chinadaily.com.cn">http://www.chinadaily.com.cn</a>
CNN	<a href="http://www.cnn.com">http://www.cnn.com</a>
EPD	<i>People's Daily</i> , English version, <a href="http://english.peopledaily.com.cn">http://english.peopledaily.com.cn</a>
MOC	Ministry of Communications, <a href="http://www.moc.gov.cn/news">http://www.moc.gov.cn/news</a>
MOR	Ministry of Railway, <a href="http://www.chinamor.cn.net/news">http://www.chinamor.cn.net/news</a>
PD	<i>People's Daily</i> , <a href="http://www.peopledaily.com.cn">http://www.peopledaily.com.cn</a>
SDPC	State Development and Planning Council, <a href="http://www.sdpc.gov.cn">http://www.sdpc.gov.cn</a>
Snweb	<a href="http://www.snweb.com">http://www.snweb.com</a>
ZBO	<i>Zaobao Online</i> , <a href="http://www.zabao.com">http://www.zabao.com</a>

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