

# **ABSTRACTS**

**International Workshop  
on**

**STRATEGIES OF REGIONAL DEVELOPMENT IN CHINA  
Problems, Concepts, Research Results**

**jointly organized by**

**The International Institute for Applied Systems Analysis (IIASA)  
General Research – Sustainable Rural Development (SRD)  
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**and**

**The University of Vienna  
Department of Chinese Studies, Institute of East-Asian Studies  
Spitalgasse 2, Hof 2, A-1090 Vienna, Austria**

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# **Migration, Education and Regional Development in Rural China**

Shuming Bao\*

## **Abstract**

China has experienced increasing diversities between the east and the west and between urban and rural areas in last 20 years. The west China development and urbanization have been recognized as important strategies for future development of China. It is expected that there will be enormous population migrating from rural areas to urban areas and from the west to the east in the next 5-20 years in China. As the capacities of cities are limited, rural towns may play important roles in absorbing migration from rural and the west. However, migration to towns has been declining from 1980 to 2000. This paper will identify different patterns of in-migration to those rural towns in Zhejiang, Jiangxi, and Sichuan by using 2000 China population Census data. The paper will investigate various factors (such as education and job opportunities) for rural and regional migration. Possible impacts of migration and policy strategies for regional development will be discussed.

and

## **An Introduction to China Research Resources and Collaborative Opportunities**

Shuming Bao\*

## **Abstract**

This presentation will introduce some newly developed China data resources, including the socioeconomic statistics, the population Census data, China GIS map series, and the online China databases. An introduction will also be given to some collaborative research opportunities in China, including the Key Lab of Poyang Lake Ecological Environment and Resource Development at Jiangxi, the Research Consortium for West China Development Studies, and the Chinese Economy Research Global Network (CERGN).

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# **Regional Disparity of Fertility Transition and Its Impact on Future Demographic Evolution in China**

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## **Abstract**

Regional population diversity is one of the key factors affecting China's regional development. Fertility as a key component has changed regional demographic development since the late 1970s. The paper focuses on fertility analysis at the regional level: past, policy and future impacts. It includes three parts: first, viewing the historical trajectory of regional disparity; then, demonstrating regional fertility policy; and finally, based on the results of demographic forecast, analyzing disparity of the fertility impact on regional population evolution. In particular, this part refers to the cases of three provinces: Beijing (east), Shannxi (western), and Hunan (central), in order to provide insights on fertility trends and its impacts.

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## **Six Fundamental Dimensions of Regional Development: A Systems Analysis Approach (IIASA)**

Gerhard K. Heilig\*

### **Abstract**

This presentation proposes a systems-analytical framework for analyzing regional development in China. It is based on the idea of elementary functions or tasks that have to be solved, if a country (or region) should prosper.

The first, and most important, task is the improvement of human resources. Without an educated, healthy and socially integrated population, no development is possible. The second task is to explore and utilize the available natural resources. This includes the resources for food production (arable land, water, fertilizers), energy generation (oil, coal, gas) and industrial production (metal and mineral deposits). Natural resource use must be as sustainable as possible to avoid unnecessary environmental destruction. The third task is to establish a viable economic structure. No country (or region) can develop with a top-down command-and-control economy. Markets, private enterprises, economic competition, and free trade are essential for economic growth. For developing a country or region it is also necessary to solve the (fourth) task of building various types of vital infrastructure, such as for freshwater supply, sewage, transportation or waste disposal. Development disasters are often the result of lacking or deteriorating infrastructure (for instance, high mortality rates in Africa are the direct result of polluted drinking water due to a lack of functioning sewage systems).

While the first four tasks outlined above have to be solved for initiating the development of a country or region, they cannot guarantee sustained progress. For this it is necessary to establish an endogenous system of research and technological development (including all its elements from universities and research centers to special high-tech development zones). And finally, there can be no development with a corrupt and inefficient administration and insufficient political representation.

These six functional tasks will be used as an analytical scheme for empirical studies of regional development trends in China.

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# Technology Parks and Regional Economic Growth in China†

Albert Guangzhou Hu \*

## Abstract

China's technology parks have spurred fast economic growth in the cities that host them. I examine whether this is merely in response to the policy incentives or whether there have been external economies from the concentration of high-technology firms as expected by policy makers. Using data on China's 52 national technology parks from 1992 to 2000 and data on the metropolises that host them, I find results that are consistent with the neoclassical growth mechanism -- labor productivity across technology parks is converging and there is no evidence of geographically external economies. But host city's foreign direct investment exhibits robust productivity spillover to the technology park. Meanwhile, in their early stage of development, the technology parks have hampered the secular trend of increasing regional inequality in China.

*Keywords:* Technology parks, localization, externalities, Asia and China.

JEL classification: O3, O4

†I have benefited from comments by Ake Blomqvist, Cao Cong, Belton Fleisher, Scott Rozelle, Sarah Tong, and Wu Yanrui. Participants at a seminar in the East Asian Institute of the National University of Singapore, the Fourth International Conference of the Chinese Economy, Clermont-Ferrand, France, October 23 – 24, 2003, and the NUS – Beijing University – Tsinghua University Workshop on the Chinese Economy, February 11-12, 2004, also provided useful suggestions. I am grateful to NUS Academic Research Fund (R-122-000-058-112) for financial support and to Goh Minghe for capable research assistance. The usual caveat applies.

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# **Change of Regional Policy in China and Its Influence on the Regional Development Framework**

Fan Jie \*

## **Abstract**

Since the introduction of the reform and the opening-up in the late 1970s, China has experienced a high-speed economic development with an average 9% increase in terms of GDP. As a result of the economic progress, the living standard of the Chinese people has greatly improved. But meanwhile the problems of regional development have become more and more serious, characterized mainly by the following aspects: the developing gap between cities and countries is widening, especially the income of urban residents is on average 6 times that of the rural residents in the middle and western region; the coastal region has increasingly more advantages in economic development than the middle and western region -- despite the implementation of the Great Western Development program and the “revitalize the old industry base in Northeast China” Strategy, the average increase of GDP per year has still lagged behind that of the coastal region by 1-2 percentage points since 2000; and in the so-called “problem region” represented by rural depressed areas and mineral resources based cities, it is more and more difficult to relieve the poverty. By starting with the introduction of the regional policy stipulated by the state government, this paper analyzes the reasons for the emergence of the regional development problems and then discusses the process of the framework change of China’s regional development.

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# **Studies at Village Level – How They Can Contribute to Sustainable Solutions for Rural China**

Markus Knoflacher \*

## **Abstract**

This contribution will reflect on a theoretical basis the experiences of two years investigations in seven Chinese villages within the EU project SUCCESS (contract no. ICA4-CT-2002-10007). Case studies at the village level are crucial for enlightening relationships within the local social system, and its interactions with the economic and ecologic environment. Analyses of people's opinions and of the physical conditions can contribute to identifications of chances and risks for future development. However, results will remain incomplete if processes at larger scales are not considered. Iterative top-down and bottom-up analyses are essential prerequisites for the extrapolation of local results to larger regions. Practical local solutions for improvement of social, economic or environmental conditions can cause added values beyond scientific results, if they will be adopted and realized by opinion leaders also after the end of the particular project.

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# The Long Way Towards Sustainable Use of Resources in Rural China

Roman Lahodynsky\* and Gerhard Neuhuber†

## Abstract

Chinese villagers are aware of the importance of sustainable use of resources on a global scale. But the increasing demand for resources by industry and agriculture resulted in serious unsustainable measures on the regional and local level. A major threat originates from unsustainable use of groundwater and river water.

In one of the project areas of a joint EU - China project the hazard situation has completely changed during the last decades from floods to draughts. Extensive use of groundwater from all levels threatens to exhaust the ground water resources, maybe within a decade and before the long distance supply channels from southern China are built. The water table is falling approx. 1-2 meters annually and salinity is rising. No adequate groundwater level management plan (supported by geophysical 3D groundwater modeling) seems to be fully implemented to govern the extraction from the main ground water horizons. By now, groundwater is being used for extensive field flooding. Therefore an improvement of the irrigation systems is inevitable. Separation between drinking water and water used for irrigation purposes as well as the establishment of ground water protection zones are recommended.

A strategic plan for sustainable water use should be elaborated for the transition period before these channels go into operation.

The diversion of water from rivers running through picturesque villages, a low drinking water quality in household storage tanks and a growing waste problem are the major obstacles for developing the potentials of agro- and ecotourism in rural China.

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# Regional Disparity in China's Land-Use Change and Its Impact on Food Security

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## Abstract

Grain output has experienced a continuous decrease in China since 1998. As a result, the consumer price index of grain increased sharply in late 2003 and then raised a widespread concern about food security in the country. Governmental policy responses were also very quick to this issue, reflecting in the shrink of the 'Grain for Green Programme' and cutting of urban land supply.

The authors of this paper claim that the policy responses to this issue may not aim at the right target because there is still a knowledge gap in the extent to which the 'Grain for Green Programme' and urban land expansion affect grain output in China. In this connection, this study examines the loss of land productivity due to 'Grain for Green Programme' in the past, by using the concept of grainland equivalent. With this concept, regional disparity of land use changes and the quality of the lost grainland were counted. With the same concept, the productivity loss of grainland due to the programme in the future is projected. The results include: during the past 6 years, 2.93% grainland equivalent was lost in China due to 'Grain for Green Programme'. In the next 15 years, about 8.7% grainland equivalent would be reduced according to the plan of the central government.

During the past 6 years, 1.47% grainland equivalent was lost due to built-up land growth. In the period from 2000 to 2020, about 3.2-4.2% grainland equivalent would be lost as a result of urban land expansion. In China, when urbanization level increases by 1 percent, about 290 thousand ha grainland equivalent will be lost.

*Key words:* China, grainland loss, food security, 'Grain for Green Programme', urban land expansion

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# The Chinese Banking System - What are the Challenges that Lie Ahead?

Martinek Birgit-Maureen\*

## Abstract

In China, financial sector intermediation primarily occurs through the banking system. This is the main reason why the further development of the banking sector will have such a crucial impact on the overall performance of the domestic Chinese economy. Thus, steps to improve the stability of the financial market have achieved top priority on the reform agenda in the meantime and the respective authorities have already started a new phase of banking reform to re-direct the system as a whole to a more sustainable path. In the field of financial surveillance and monitoring, institutional reform brought about the establishment of independent institutions.

It is obvious that the Chinese banking system is facing immanent systemic difficulties, and future challenges which are not easy to solve. There is the vast amount of non-performing loans, the inefficient size of the banking institutions, and many other structural problems which hamstring a smooth development in many ways. Moreover, policy measures which were taken earlier this year to achieve a soft landing of the economy put additional external pressure on the banking system. The government's appeal to stop investment in over-heated sectors might trigger off a new wave of accumulation of non performing loans in these sectors.

Additionally, in the light of the obligatory liberalization of the banking sector due to WTO regulations by 2006, it seems to be an absolute precondition to make banks fit for a more competitive environment. The performance of Chinese banks varies enormously and regional divergence is evident.

It is therefore very likely that the Chinese banking sector has to undergo a phase of consolidation throughout the next years. Which kind of changes have to be expected? How will the pressure of internationalization and liberalization affect the banking system and will the impact be the same throughout the geographic regions?

*Keywords:* banking system, financial system, institutional reform, liberalization, internationalization, WTO.

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# Optimal Industrial Structure for Water Efficiency in an Accelerated Economic Development Area

Jinren Ni\*

## Abstract

Various methods exist for promoting water efficiency with the aim of minimizing water use and wastewater discharge. This paper presents an optimal industrial framework for achieving this aim, for application to the accelerated economic development area of Shenzhen in south China. A macro-economic analysis model is coupled with an input-output table that correlates 21 industrial sectors in Shenzhen. Predictions are made of gross domestic products (GDP), water uses and wastewater discharges for different sectors in certain planning years, based on a series of cumulative contribution curves that describe the optimal industrial structure of each parameter. It is found that the optimal industrial water demand in 2000 and 2010 could be over 60% lower than the planned values for the same target GDP. During this period, the industrial structural adjustment alone could contribute 27.5% to the saving. Furthermore, the wastewater discharges would be correspondingly reduced. It is expected that application of optimal industrial structural adjustment to water resource management in a new city such as Shenzhen should permit a higher sustainable economic growth rate for a given increase in water demand than in an older, established city such as Tianjin in North China.

*Keywords:* industrial structure, water efficiency, macro-economic analysis, input-output.

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# **Gravitation at Home and Abroad: Openness and Imbalanced Regional Growth in China**

Albert G. Hu<sup>†</sup> and Robert F. Owen<sup>\*</sup>

## **Abstract**

The point of departure for the analysis is a characterization and juxtaposition of the widely divergent patterns of regional economic development and openness across Chinese provinces since the late seventies. Tests of the degree of convergence over the 1985-2000 period, for regional sub-groupings of the thirty provinces, serve as a background for an econometric analysis, which focuses on the links between the degree of provincial openness and divergences in their economic growth. A critical issue is the identification of eventual spillover effects in economic performance that may reflect externalities from foreign direct investment and trade. To the extent that these are highly localized, either within provinces or across regional sub-groupings, there needs to be added concern regarding the longer-term implications of gradualist, and selective, Chinese policies of promoting openness by favoring principally coastal regions.

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# Multipurpose Forestry and Forest Certification as Tools for Sustainable Development of Rural Regions in China

Alfred Pitterle \*

## Abstract

Forest being a pool of biodiversity is in general the environmentally most stabilizing ecosystem as well as a renewable natural resource contributing multiple benefits to people. Not only *products* like wood, industrial basics, food and food sources but also *services* like conservation of soil, water, air and climate as well as protection from natural hazards make forests to a basic element of human life. So, forest should be subject to a sustainable management. Instead it has been destroyed already by more than two third on the global scale – creating or contributing to a climate change with disastrous floods and erosion, water shortage and desertification. This development, entailing degradation of living conditions for an estimated 1.2 billion of people (UNO), is spinning the spiral of underdevelopment at increasing pace: "poverty caused by destruction of natural resources : destruction of natural resources caused by poverty"!

On the other hand people cannot gain enough income from forest management at all because none of the forest products and services are *yet open and subject to a real market system* – except wood. Rural people who are living close to the remaining forests are statistically proved to be poorer and depending on lower living standards than those in agricultural or urban areas – with the effect of massive migration to cities.

The only way to escape from increasing rural underdevelopment and environmental destruction – as drastically shown in China – can be concluded in (i) *preventing existing forests from further degradation*, (ii) *re-forestation of bare land* and in (iii) *establishing an ecological and social based market-system for all essential forest products & services*, which is depending on a sustainable and multipurpose management. As a precondition for marketing those multiple but locally variable and different benefits of forests, they have to be reflected by a reliable certificate, based on local inventory of measurable criteria and indicators (e.g. CO<sub>2</sub>-certificate following the Kyoto Protocol).

China is facing these issues, becomes more and more aware about the relationship between environmental improvement and poverty alleviation and is right now opening up to an *ecological and social based multipurpose forestry*. And forest certification becomes more and more important too.

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# Imagine China as a Collection of Economies: Estimating the Effect of Trade Cost on Growth

Sandra Poncet<sup>\*</sup> and Shang Jin Wei<sup>†</sup>

## Abstract

This paper evaluates the impact of trade barriers on economic growth using data on Chinese provinces. It follows a two step procedure. First, it measures regional trade barriers using both a price based methodology and a trade volume based approach. We deem regional trade costs to be high when inter-market price dispersion is greater for markets that lie on different sides of a provincial border than for markets that locate within the same province, after distance and market specificities are controlled for. Second, it then embeds this measure of trade barriers into a cross-province economic growth framework, estimated with the GMM method. The evidence suggests that higher regional trade costs are systematically associated with lower economic growth.

*Keywords:* China, Law of One Price, border effects, trade barriers, economic growth.

JEL Codes: E3, O1, O5, R1.

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# **The Impact of Universities in the PRC on Regional Development – Some Case Studies**

Richard Trappl\*

## **Abstract**

Universities on the regional level fulfill a key function in the regional development of China, especially in the so called “Western Areas”, a term that refers to more than only a geographical region. The paper presents four universities as case studies: Ningxia University (in the Hui Autonomous Region Ningxia), Three Gorges University (in the wider area of the Changjiang “Three Gorges Dam”), Jishou University (in the World Natural Heritage area and National Park Zhangjiajie) and Shaoxing University (a cultural and tourist area in Zhejiang province) to illustrate their impact on regional development. After a short characterization of the position of regional universities within the system of Chinese universities, the structure of these universities, their function as regional think-tanks and centers for the recruitment of academic personal for the regional demands will be shown.

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# **Market Transition, the Wenzhou Model, and Regional Development in Zhejiang Province, China**

Yehua Dennis Wei\*

## **Abstract**

China is marked by huge differentials existing among cities, the countryside, and provinces. Zhejiang is a coastal province spearheading China's phenomenal growth and is known for its Wenzhou model of development based on private enterprises and rural industrialization. This paper analyzes changing overall and rural intercounty inequalities, and identifies emerging clusters in regional development during the reform period in Zhejiang. We have found that rural intercounty inequality has intensified, driven largely by the formation of rich clusters along coastal Zhejiang and poor clusters of interior southwest Zhejiang. Our analysis of Wenzhou also shows that the inequality between coastal and interior Wenzhou has risen dramatically. We argue that the development of private enterprises has tremendous impact on regional development and cluster formation in Zhejiang.

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# **Rural Industrialization and Its Impact on Regional Disparities in the PRC**

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## **Abstract**

The process of rural industrialization has been going on since the early days of the People's Republic of China, but it has also met with some resistance and criticism ever since it got started. One of the reasons for looking at the emergence of township and village enterprises with some reserve is the fact that rural industrialization has always created inequality among different localities. Rich villages became even richer after establishing TVEs while poor areas never got the chance of getting industrialized. Villages with TVEs can afford to build schools and hospitals while those which cannot afford TVEs are struck by poverty. For those villages which are successful in proceeding with rural industrialization migration to the cities is no major problem, while others tend to be deserted by the middle aged generation in desperate search for job opportunities and incomes. Local administration in industrialized villages is usually more efficient and better equipped with financial resources while in other places the budget of local administrators is based on demanding additional fees and levies from the peasants.

This paper will present an overview over the development of TVEs since the early 1980s and focus on the question of whether or not rural industrialization is related to regional disparities in the PRC.

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# **Land Conservation Campaign in China: Integrated Management, Local Participation and Food Supply Option**

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## **Abstract**

In an effort to halt soil erosion, desertification and sandstorms, the Chinese government has recently launched a series of land conservation programs targeted at the country's north, northwest and southwest areas where problems are severe. This paper provides an overview of the current status of the major land conservation projects and their environmental and social-economic significance, as well as the challenges encountered. Conflicts of interests and objectives among different administrative entities involved and problems associated with the lack of local participation are addressed. Impacts on the food economy and implications for the environment are discussed in light of the options for meeting the country's increasing food demand. The analysis highlights the necessity of improving cooperation and integration across different administrations and the imperative of participation of local communities in the planning and management process for achieving the goals of land conservation campaign. The importance of internalizing the environmental externality of land degradation and stipulating sustainable national food supply strategies is also stressed.

*Keywords:* China; Land conservation; Integrated management; Local participation; Food economy.

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# Activity Diversifications and the Income in Rural China during the Reform Period (1978-2001)

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## Abstract

During the reform period (1978-2001), the Chinese rural economy has experienced a trend of activity diversification at multiple levels: crop diversification, agro-forestry diversification and agro-industrial diversification. At the same time, rural per capita income rose sharply despite some fluctuations. Using a panel data of 29 provinces from 1982 to 2001, the effect of activity diversifications upon both income level and income instability is assessed by two approaches: the approach of moving coefficient of variation over 5 years and the approach of income decomposition. The two approaches lead to the same results: the crop diversification and the agro-industrial diversification can, on one hand, increase rural income, and on the other hand, reduce income instability, while the agro-forestry diversification reduces both the income and its instability, a classical result of the portfolio choice model under risks.

*Keywords:* activity diversification; income; income instability; China.

JEL classification: D81, J23, N3, Q15.

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# Projections of Water Demand under Changing Land-Use in Beijing Municipality

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## Abstract

Beijing Municipality, as one of the biggest economic-concentrated areas in China, has suffered from an extremely serious water deficiency for decades. Excessive access to water resources has not only broken the water balance but has also brought about some serious problems to regional environment, such as the frequent cut-off discharge, the shrink of wetlands, the exhaustion of groundwater resources and the deterioration of water quality. Except for the climate change in physical dimension, unlimited industrial enlargement, extensive agricultural irrigation, continuous improvement of living standard, and increasing ecological demand constitute the main factors in human dimension to influence the change of balance between water supply and water demand. Land use changes might be the best concept to combine all these factors for they could reflect the changes both in physical conditions and in social economy.

This paper focuses on the relationship between sustainable water use and land use changes in Beijing Municipality. Rather than taking a more traditional, static approach of forecasting future use based solely on per capita consumption rates and/or population statistics, the analysis documented in this study is based on models of future land use changes. Both spatial and temporal distribution models are applied to project the future land use changes in Beijing. The resulting water demand per land use type can be useful tools for forecasting water demand in the area as well as actual water supply. The feasible recommendations on regional water use policies will be put forward accordingly.

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# **Review of the Government Strategies for the Rural Poverty Alleviation since 1978 in the PRC**

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## **Abstract**

Tremendous progress has been achieved in rural poverty alleviation in the PRC especially since 1978, when the PRC initiated its rural reform policy and subsequently the reform and open policy in the whole country with government policy focus on economic development. The rural poor population has largely reduced from 250 millions in 1978 to only 34 millions at the end of 1999, while the rural poverty incidence has reduced from 30.7% in 1978 to 3.7% at the end of 1999. In the last two decades of the last century, the whole process of the government's effort in alleviating rural poverty is divided into 3 periods in terms of the relevant central government strategies and policies, which, to a large extent, guided the government practice and efforts. In the new century, the Chinese government reviewed and learnt from the experience and lessons of both national and international poverty alleviation interventions, and worked out its new government strategy and policy for the rural poverty alleviation. This paper tries to introduce and analyze the main causes and characteristics of the rural poor, the evolution of government strategies and main policies for the rural poverty alleviation, the background of formulating these strategies and policies, the implementation and achievements, and very importantly and possibly the shortcomings of the strategies and policies, in each of the 3 periods and the new-century period in the PRC.

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# Dilemma of China's Regional Development – “Go-West Strategy” and “Restoration of the North-East Strategy”

Jia Ming Zhu\*

## Abstract

1. Evaluation of the “Go-West Strategy”
  - a) In the late 1990s, within the Regional Development Policy, the Chinese government developed a special strategy, the “Go-West Strategy”. The purpose of this strategy was to reduce the development gap between eastern and western China. Western China had not received the attention and investment that the Eastern coast regions of China had to encourage their economic development. In addition, the Western region is the home to many ethnic minorities, such as Muslim people in Northwest, Tibetan people, etc.
  - b) During the last 4-5 years, the Central Government and the western local governments have concentrated on three main points:
    1. Infrastructure;
    2. Urbanisation process;
    3. Improvement of education facilities.
  - c) The Go-West Strategy heavily depends on the Central Government's financial resources, rather than on private or other capital. It is obvious that the transportation system, telecommunication system and education facilities have been improved. However, this does not mean the development gap between western provinces and eastern China has decreased. The economic development of the Western provinces has still not become part of the mainstream of Chinese economy.
2. Evaluation of the “Restoration of the North East Strategy”
  - a) After the new generation took power in Beijing, they introduced a new Chinese regional development strategy, which focused on the restoration of North-Eastern China. (The western regional policy was not further discussed or altered.) NE China is the only region which none of the major policy makers or leaders in the last 20 years had paid any attention to. For example, in the Collection of Deng Xiaoping's Works, there is no mention at all about this whole region, and Deng Xiaoping never personally visited NE China.
  - b) NE China used to be the major industrial base of China, in particular for heavy industry. From the first 5-year plan until the mid 1960ies, all major Chinese industrial projects were located in this area. It is hard to imagine China's industrialization without the contribution of NE China industrial base. Therefore, the state-owned enterprise workers in NE China were stronger than in other regions, even Shanghai.
  - c) There is no doubt that NE China has lost out during the last 20 years economic reform process. The role of NE China within the Chinese national economy declined rapidly. The majority of state-owned enterprises have gone bankrupt due to different reasons, such as loss of market

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share, bad management, lack of natural resources based on over-exploitation etc. NE China is the region with the highest unemployment in urban areas.

- d) Mr Hu Jintao and Mr Wen Jiabao shifted their attention to NE China because they worried about the challenge from huge numbers of laid-off workers and the decline of the living standards of the working class.

### 3. Dilemma of the Central Government's Regional Development Policy

- a) Dilemma 1: How to balance sustainable development on the eastern coast, continue the Go-west strategy as well as the restoration of the NE policy and deal with the pressure of the mid-China regional development. The Central Government does not have sufficient financial resources to deal with so many regions with different development levels. Mr. Zhu Rongji, former Premier Minister, could make use of fiscal policy to stimulate the Go-West strategy. Since the increase of budget deficit, the new State Council can no longer use this kind of policy for the NE.
- b) Dilemma 2 : Privatisation. The majority of the NE region belongs to the State government and to state-owned enterprises. Therefore, the process of privatisation must continue, but this means that more and more workers need to be laid off. The social system is quite underdeveloped. These unstable conditions create a potential threat.
- c) Dilemma 3: If the Central Government creates special policies to attract FDI in the less developed regions, this means some capital will flow from Eastern coast and thus hurt the development on the East coast. Currently, FDI has stabilised in China, the government cannot expect a further increase in FDI.
- d) Technical Innovation could be one solution, but this also needs capital input, labour training, R&D education etc. All of these have increased financial resources as a pre-condition.
- e) The Chinese government regional development policy has come to such a stage, that the situation is clearly recognized but the tools are not sufficient to deal with it.

### 4. Reality and Choice:

- a) The government needs a clearer policy for both W and NE regions. This would include the support for new economic centers or development zones.
- b) The Chinese government needs to continue to design a policy for the TVEs to survive in both western and north-eastern regions, because the TVEs are much weaker there than in the East coast area. The major policy for this must be tax policy, to reduce the burden on the TVE in these regions.
- c) Encourage the creation of new SMEs to join the market development in these regions.
- d) Encourage different sets of enterprises from Eastern China to invest in these regions and to play a more important role in the economic development, rather than the government policies.