

# Regions in China: One Market or Many?

Fred Gale

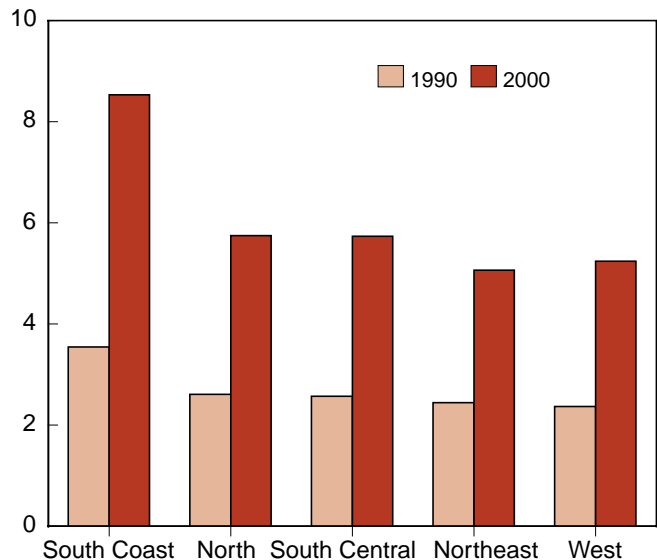
The statement "Everything is true somewhere in China" reflects the diversity among China's provinces and regions, each of which has its own character, consumer tastes, and agricultural growing conditions (see box). Differences in the level and pace of development and region-specific policies magnify the importance of understanding regional differences in China.

Post-reform development in China led to widening regional disparities in incomes—east versus west and rural versus urban. Early post-1978 development policies favored coastal areas, a reversal of earlier policies aimed at moving industry inland. Coastal growth accelerated due to favorable treatment combined with the natural advantages of coastal locations and ethnic connections with overseas Chinese investors. Incomes in other regions also experienced rapid growth, but incomes in coastal regions remained far ahead. By 2000, urban per capita incomes in southern coastal provinces averaged 8,541 yuan, while average incomes in other regions ranged from 5,064 yuan to 5,753 yuan (fig. F-1). The gap between rural and urban incomes also grew, especially during the 1990s (see "Can Rural Income Growth Accelerate?" in this report). China's economic growth—and growth in consumer demand—has been concentrated in cities along the coast. Provinces along China's southern coast account for 34 percent of China's gross domestic product and 21 percent of the country's population (fig. F-2 and table F-1). With just 10 percent of the country's cultivated land, China's south coast region must rely on other regions to help supply its food needs. Cities along China's northern coast, such as Beijing, Tianjin, Dalian, and Qingdao, are also geographic centers of consumer demand.

Coastal cities also account for much of China's consumption of imported high-value food products. In some sectors, producers in China's interior provinces compete with producers overseas for markets along China's coast. Until recent years, an overloaded transportation infrastructure, especially on north-south routes, and inefficient marketing systems made interregional trade difficult (see "Transportation and

Figure F-1  
**Urban per capita disposable income,  
by region, 1990-2000**

Yuan (1,000)



Note: Year 2000 constant yuan. 1990 data were adjusted for inflation using consumer price index. Weighted averages computed using provincial population as weights. Regional delineation by ERS (see fig. f-2).

Source: Calculated by ERS using data from National Bureau of Statistics.

Distribution: Will Bottlenecks Be Eliminated?" in this report). Southern feed mills and soybean crushers have relied on imported raw materials because access to corn and soybeans from northeastern China is difficult. If China can reduce transportation and distribution bottlenecks, it will become easier for domestic producers in interior provinces to supply coastal markets.

## **Legacy of Regional Self-Sufficiency**

At times, uneven development across provinces and competing economic interests pitted provinces against one another and dampened interregional trade. China has, through much of its history, resembled a confederation of separate principalities, a tendency reinforced by 1950s-era policies that encouraged provinces to be

## Important Regional Differences

It is important to understand the vast differences in resource endowments, climate, and wealth among China's regions.

### Northeast

- ◆ Highest endowment of cropland per capita
- ◆ Important region for soybean and corn production
- ◆ Important center of state-owned heavy industry

### South central

- ◆ Site of the Yangtze (Changjiang) River
- ◆ Poor and heavily populated
- ◆ Important region for production of rice and pork

### Northern plain

- ◆ Site of the Yellow River

- ◆ Most affected by water scarcity
- ◆ Heavily populated
- ◆ Important region for temperate crops: wheat, fruit, corn, cotton

### West

- ◆ Largely arid climate
- ◆ Large minority populations
- ◆ Important cotton production area (Xinjiang)

### South coast

- ◆ Rapid economic growth and high incomes
- ◆ Scarcity of land
- ◆ Relatively high demand for food imports

self-sufficient in food and industry. Following economic reforms, lack of economic integration among provinces came into focus in the 1980s and 1990s when interior provinces tried to block shipments of manufactured goods from coastal provinces and tried to prevent raw materials like coal, cotton, jute, silkworm cocoons, and tobacco from leaving the province. Interior provinces sought to generate profits and tax revenue by setting up local industries to process local raw materials procured at artificially low prices. In the early 1990s, some observers predicted that China might break apart under the pressure of interprovincial trade wars. Until recent years, interprovincial flows of labor and capital were also limited by restrictions on migration and poorly developed financial institutions.

China's legacy of local self-sufficiency is slowly being undone as industries restructure in today's more competitive environment. By the late 1990s, domestic trade wars were over and interregional trade was booming. China's growing trucking industry and improved highway system have enabled distributors to bypass bottlenecks in the country's inadequate rail and water transport infrastructure. Vastly improved communications systems permit the rapid dissemination of market information and communication between customers and suppliers.

Greater competition and freer entry may accelerate the restructuring of China's industry and the emergence of

national, rather than regional, markets. Few national food brands have emerged, as regional brands and companies still dominate most markets, but certain foreign brands are recognized throughout the country. Greater competition from foreign brands, increased presence of foreign retailers, and development of national retail chains may encourage development of national brands in China. Industries made up of duplicative small companies associated with particular provinces, cities, or regions are being restructured to achieve economies of scale and reduce overcapacity. Restructuring is expected to intensify as competition from foreign firms increases. China's WTO accession commitments, in addition to allowing entry of more foreign firms, may also allow domestic firms to enter markets in provinces outside their home regions. This policy change may accelerate integration of the national economy in China.

In agriculture, markets are becoming more integrated and regional crop specialization is increasing. For example, until the 1980s, each city in China was expected to be self-sufficient in vegetables, but production is now concentrating in certain rural areas that specialize in vegetables and ship them to distant cities or overseas. Studies show that prices of similar commodities in different geographic markets move together, a further indication of market integration. Greater regional specialization may increase China's total food and fiber production capacity by making the most efficient use of the country's scarce farmland.

Figure F-2

**Regions of China**



Source: Economic Research Service, USDA.

**Table F-1—Regional shares of population and production of major commodities, by region**

Item	China total	Northeast	North	South coast	South central	West
	<i>Percent</i>					
Population <sup>1</sup>	100	8	27	21	37	7
Gross domestic product	100	10	27	34	24	4
Cultivated land <sup>2</sup>	100	17	26	10	33	15
Production: <sup>3</sup>						
Wheat	100	3	57	11	18	10
Corn	100	30	37	3	18	11
Rice	100	9	4	29	58	1
Soybeans	100	39	23	9	22	8
Meat	100	10	27	16	41	6
Fruit	100	5	43	25	22	5
Cotton	100	0	34	8	21	37

Note: Regional shares do not add to 100, due to rounding.

<sup>1</sup> Year 2000.

<sup>2</sup> 1997.

<sup>3</sup> 1999.

Source: Calculated by ERS using data from China National Bureau of Statistics, "Communique on Major Figures of the 2000 Population Census (No. 2)," *Abstract of the First Agricultural Census in China*, and *Rural Statistical Yearbook 2000*.

### ***What We Need to Know***

Will China continue to evolve toward a unified market with national companies and brands?

How will free trade after WTO accession affect disparities between provinces and support for national trade policy?

Will the central government be able to implement policies at the local level?

Grain production is gradually being liberalized and regionally integrated but has been subject to retrenchments, such as the mid-1990s Governor's Grain Bag policy, which charged each provincial governor with ensuring that local grain supplies were adequate to feed the local population.

### ***Central-Local Policy Conflicts***

China's long history as a unified nation obscures the fact that provincial and local governments have traditionally wielded considerable power that can block the implementation of central government policies. The traditional Chinese saying "The country is wide and the emperor is far away" reflects the considerable discretion and responsibility of local officials in implementing central government edicts handed down through the country's vast bureaucracy. Plant and animal quarantine offices, for example, are operated at the local level and are self-funded. Some observers speculate that local inspectors and officials may be subject to local pressures to apply national sanitary or phytosanitary standards to block shipments, thus benefiting local traders or producers. Similarly, foreign firms given a green light by national authorities to enter the China market may face local regulations, taxes, or approvals that block access. In preparation for its World Trade Organization (WTO) accession in 2001, China conducted a comprehensive review of local regulations to bring them into compliance with its WTO commitments.

Regional differences can pit provinces against one another in national policy. For example, relatively wealthy southern coastal provinces tend to support free

trade, since they have vibrant manufacturing export sectors and rely on food imports, including high-quality rice and wheat, corn, oilseeds, and poultry. Provinces in northern and central China, which are heavily populated by poor farmers growing crops vulnerable to foreign competition, are more skeptical of free trade. Development policies during the 1970s and 1980s limited foreign investment to certain coastal cities, accounting in part for the regional disparities in income today. A new western development initiative seeks to steer investment and development to China's relatively poor and politically sensitive western provinces. If WTO accession leads to greater regional disparities, the central government may introduce more region-specific development policies—perhaps directed at agricultural areas or regions with industrial unemployment—to preserve social stability.

### ***Further Reading***

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