

Progress of Western China Development Drive, and Evaluation of the Results

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Abstract

The paper analyzes both the progress and problems in the western China development drive over the past three years and attempts a tentative evaluation of the results of the drive. The authors hold that the western China development drive has been proceeding in an active, orderly and steady fashion, and has achieved considerable success in the construction of infrastructure, and improvement of ecological environment. However, there are still many problems. It has been slow in attracting non-governmental investment, in the improvement of investment climate, regional industrialization and in opening up to the outside world. It is, therefore, necessary to make adjustments to the western China development strategy during the remaining years of the Tenth Five-Year Plan period (2001-2005) and during the Eleventh Five-Year Plan period (2006-2010), make greater efforts in reform and opening up, improve the investment climate, accelerate the pace of industrialization and attract more non-governmental capital from at home and abroad.

I. Introduction

Thanks to the powerful support of the state in funds and policy, the western China development drive has been proceeding in an orderly and steady manner since it was launched three years ago. Substantial progress has been made in the construction of infrastructure projects in the western regions and work has started in all aspects of the construction of ecological environment, e.g. Qinghai-Tibet Railway, the “west-east natural gas transmission” project, the “west-east power transmission” project, key water control projects and communications trunk lines. Fixed assets investment has increased sharply.

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The development of the local economy, science and technology, education and social undertakings has sped up. However, there are still many problems with regard to the attraction of non-governmental capital, regional industrialization, investment climate and opening to the outside world. Based on systematic data, the paper analyzes the progress and problems in the western China development drive over the past three years, and attempts a tentative evaluation of the results of the drive.

II. Construction of Infrastructure and Ecological Environment

Major progress has been made in infrastructure and ecological environment construction. A number of major projects have been started and the pace of work has accelerated. According to the data provided by the Western China Development Office of the State Council, 36 major projects started in 2000-2002, with a total investment of more than 600 billion yuan. By the end of 2002, more than 200 billion yuan of investment had been completed, building or transforming more than 30 reservoirs, adding 55,000 kilometers of new roads, building more than 4,000 kilometers of railways, building and expanding 31 airports. More than 20 million kw of installed capacity have been added to the project of transmitting power from the western areas to the eastern areas. Ecologically, work has proceeded smoothly in such projects as returning farmland reclaimed from forests, the protection of natural forests, and sandstorm control and prevention. As a major ecological project in the central and western regions, the project of returning farmland reclaimed from forests covers 25 provinces, more than 1,000 counties, involving 13.3 million farm households and 53 million peasants.¹

The acceleration of infrastructure and ecological environment construction is conducive to the changes of the investment environment, production and living conditions in the western part of China. However, relatively speaking, the western regions are lagging far behind other regions in reform and opening up, and the investment climate is worrisome. At present, the western part of the country is at least 10-15 years behind the coastal areas in reform and opening up. Despite rich labor resources, its efficiency wage level (that is, the wage level per unit output) is higher than that in the coastal areas (Wang and Wei, 2002, pp. 20-21). The average tax burden on industries in the western areas is also heavier than that in the coastal regions. In some backward areas, due to the lag in reform and opening up, the

¹ Data quoted come from the website of the Western China Development Office of the State Council: <http://www.chinawest.gov.cn>.

idea of the planned economy is deep-rooted in the hearts of the people. Local governments intervene in the operations of enterprises at will, making it hard for enterprises to realize autonomy in their operations. Unauthorized fee collection, imposition of fines and apportionment are very serious. At the same time bloated governmental organizations and low working efficiency result not only in high transaction costs but also in opportunities for rent-seeking, providing room for the spread of corruption.

III. Investment Growth, and Investment and Financing Mechanisms

Over the past three years, the central government has invested about 270 billion yuan in construction projects, including about 200 billion yuan earmarked for infrastructure, 50 billion yuan for ecological projects and 10 billion yuan for social undertakings. More than one-third (160 billion yuan) of long-term construction treasury bond funds have been used for western China development. The transfer payments by the central finance to western China has reached about 300 billion yuan. Bank loans to western areas have increased by more than 600 billion yuan.² Supported by fiscal investment of state and treasury bond funds, fixed assets investment in the 12 provinces, cities and autonomous regions in the western part of the country grew rapidly. Table 1 shows that, since 1999, for four consecutive years, fixed assets investment in the 12 provinces and autonomous regions was higher than the national average, and also higher than the 11 provinces and cities in eastern China. The rapid rise in fixed assets investment will effectively pull the demand in the western region, thus laying a solid material foundation for future development.

Investment of state finance in the western part of the country has increased each year since the launching of the development drive. Fiscal investment in the western regions has occupied an increasingly larger proportion of the national total, and so has fiscal investment on a per capita basis. Starting from 2000, per capita investment in the budgetary fiscal investment in western China has already exceeded that in the central and eastern parts of the country. This shows that, in terms of population distribution, the focus of state fiscal investment has already shifted to the western part of the country. In 2002, per capita investment in capital construction in the budgetary investment was 237.5 yuan, 108.3 percent higher than in the eastern regions and 72.2 percent higher than in the central

² See briefing by leaders of the Western China Development Office of the State Council, Chongqing, Tibet, Shaanxi and Xinjiang at the news conference organized by the Press Center of the 16th National Party Congress, November 12, 2002, <http://www.chinawest.gov.cn>.

Table 1. Growth of Fixed Assets Investment in Various Regions

Year	11 provinces and cities in the eastern regions		8 provinces in the central regions		12 provinces, cities and autonomous regions in the western regions		National total	
	Investment (billion yuan)	Growth rate (%)	Investment (billion yuan)	Growth rate (%)	Investment (billion yuan)	Growth rate (%)	Investment (billion yuan)	Growth rate (%)
1998	1636.971	-	602.332	-	504.68	-	2840.6	-
1999	1733.027	5.87	621.705	3.22	542.13	7.42	2985.5	5.10
2000	1875.247	8.21	703.354	13.13	611.072	12.72	3291.8	10.26
2001	2087.415	11.31	805.898	14.58	715.876	17.15	3721.3	13.05
2002	2465.558	18.12	968.695	20.20	863.906	20.68	4320.2	16.09
2000-2002	-	12.47	-	15.93	-	16.80	-	13.11

Sources: Calculations are based on figures of *China Statistical Yearbook*, various years, published by the National Bureau of Statistics (NBS) and *Statistical Bulletins* of various regions, 2002.

Note: As investment is made irrespective of regions, the sum of investment in various regions is smaller than the national total. 2002 figures for western China do not include Tibet. Growth rate is calculated according to the prices of the year. 11 provinces and cities in the eastern regions include Liaoning, Hebei, Beijing, Tianjin, Shandong, Jiangsu, Shanghai, Zhejiang, Fujian, Guangdong and Hainan. 8 provinces in the central regions of the country include Heilongjiang, Jilin, Shanxi, Henan, Anhui, Hubei, Hunan and Jiangxi. 12 provinces, cities and autonomous regions in the western regions include Guangxi, Inner Mongolia, Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Ningxia, Qinghai and Xinjiang. The same applies in the tables below.

regions (see Table 2). In recent years, a big part of the state treasury funds has gone to the western regions. In 2001, the number of technical transformation projects financed by treasury bond interest discount reached 90, with a total investment of nearly 7 billion yuan. In contrast to this, domestic non-governmental capital and foreign investors have held a wait-and-see attitude. Their investment in western regions is still limited.

In a word, the mechanism of investment and financing has not been diversified in western regions. Investment growth depends mainly on capital construction investment and investment by the state sector. This is especially the case with infrastructure and ecological environment construction, depending mainly on government fiscal funds and bank loans.

IV. Economic Growth and Income Gaps

Despite rapid investment growth in the western regions, it has not effectively curtailed the enlarging regional disparities, as most of the investment is concentrated in infrastructure

Table 2. Regional Distribution of Budgetary Investment in Capital Construction, 1993-2002

Year	State budgetary funds (billion yuan)	%			Budgetary funds on per capita basis (yuan)			Ratio of coastal areas to inland regions
		Eastern regions	Central regions	Western regions	Eastern regions	Central regions	Western regions	
1993	43.176	37.8	24.4	17.1	33.8	25.0	27.4	0.91
1994	43.457	40.7	25.8	16.9	36.2	26.3	26.8	0.95
1995	49.167	38.8	28.6	20.2	38.4	32.7	35.9	0.80
1996	52.438	42.4	28.9	16.5	44.5	35.0	30.9	0.93
1997	57.451	43.7	30.9	20.6	49.8	40.6	42.0	0.85
1998	102.132	36.7	24.4	19.3	73.9	56.7	69.3	0.84
1999	147.888	36.5	27.5	19.4	105.6	91.9	99.8	0.78
2000	159.407	31.5	26.5	21.4	93.7	96.1	118.8	0.66
2001	205.231	31.4	24.7	21.2	122.4	112.9	148.6	0.69
2002	253.360	23.9	24.5	27.6	114.0	137.9	237.5	0.46

Source: NBS: *China Statistical Yearbook*, 1994-2003 various years.

Notes: Due to investment of irrespective of regions, the total investment of various regions is not equal to 100 percent. The three regions in this table follow the division by the former State Development and Planning Commission. The eastern regions include Liaoning, Hebei, Beijing, Tianjin, Shandong, Jiangsu, Shanghai, Zhejiang, Fujian, Guangdong, Guangxi and Hainan; the central regions include Heilongjiang, Jilin, Inner Mongolia, Shanxi, Henan, Anhui, Hubei, Hunan and Jiangxi; the western regions include Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Ningxia, Qinghai and Xinjiang.

and ecological construction and the output has been poor (see Table 3). However, dynamically, economic growth has been going strong in the western part of China since the start of the development drive. First, the growth rate has accelerated each year. In 1999-2002, western China's GDP grew year by year. It reached 8.97 percent in 2002, slightly lower than the average level of other regions. The gap in growth rate between the western regions and other parts has narrowed. In 1999, these two differences were 2.49 percentage points in GDP growth and 1.54 percentage points compared with the regional average. By 2002, these gaps were narrowed to 1.65 percentage points and 1.02 percentage points. This shows that the regional disparities in economic growth are changing for the better.

But the high speed growth in investment in western regions has not brought about high-speed economic growth. This is due to the following reasons: First of all, governments at all levels have put the emphasis of their development drive on infrastructure and ecological environment construction and have not paid enough attention to the specialty industries, especially the development of processing and manufacturing, thus failing to provide

Table 3. GDP Growth and Regional Distribution

Year	GDP growth (%)				Regional shares of GDP (%)			
	11 provinces and cities in the eastern regions	8 provinces in the central regions	12 provinces, cities and autonomous regions in the western regions	Regional average	11 provinces and cities in the eastern regions	8 provinces in the central regions	12 provinces, cities and autonomous regions in the western regions	11 provinces, cities and autonomous regions in the western regions
1995	-	-	-	-	55.7	26.1	18.2	18.1
1998	-	-	-	-	55.9	26.3	17.8	17.7
1999	9.74	7.83	7.25	8.79	56.7	25.8	17.5	17.4
2000	10.37	8.78	8.47	9.62	57.3	25.6	17.1	17.0
2001	9.87	8.99	8.74	9.45	57.5	25.4	17.1	17.0
2002	10.62	9.29	8.97	9.99	57.8	25.3	-	16.9
2000-2002	10.29	9.02	8.73	9.69	-	-	-	-

Sources: Calculated on the basis of the *China Statistical Yearbook*, various years and *China Statistical Abstract*, 2003, published by the NBS.

Notes: GDP growth is calculated by comparable prices and the regional shares are calculated by the prices of the year. Data for 2002 do not include Tibet; 11 provinces, cities and autonomous regions in the western regions do not include Tibet.

industrial support for a sustainable, stable and rapid development in the long run. Second, some large projects in the western regions are not closely associated with the local economy. Some of them are undertaken by contractors and purchasers from elsewhere (mainly the coastal regions) and therefore have not had the pulling and multiplier effects as anticipated. Third, as the investment climate is poor, the average industrial taxation rate, and efficiency wage, are higher than that in the coastal areas, while the return on investment, and labor productivity, are lower than that in coastal areas. Industry in the western regions lacks market competitiveness. Some processing and manufacturing in the western regions have been slow in growth and some have even been shrinking.

Apparently, such an imbalanced growth pattern in the regional economies has already led the national economic aggregate to concentrate on the coastal developed areas and the proportion of the western regions has been dropping steadily. But what is gratifying is that, dynamically speaking, the average annual drop in the percentage of GDP in the western regions was 0.22 percentage points during the Ninth Five-Year Plan period and the drop in the first two years of the Tenth Five-Year Plan period averaged only 0.05 percentage points. This shows that the drastic concentration of economic aggregate in the eastern part of the

Table 4. Per Capita GDP in the Western Regions and Its Relative Changes

Year	Per capita GDP (yuan)				Relative gap in per capita GDP (%)			Relative level of per capita GDP in the western regions
	11 provinces and cities in the eastern regions	8 provinces in the central regions	12 provinces, cities and autonomous regions in the western regions	Regional average	Vs. eastern regions	Vs. central regions	Vs. regional average	
1995	7104.3	3693.1	3035.3	4782.4	57.3	17.8	36.5	63.5
1996	8338.5	4429.8	3525.7	5632.0	57.7	20.4	37.4	62.6
1997	9318.0	4964.7	3878.1	6280.6	58.4	21.9	38.3	61.7
1998	10022.6	5200.3	4122.5	6691.5	58.9	20.7	38.4	61.6
1999	10693.4	5380.8	4283.3	7048.3	59.9	20.4	39.2	60.8
2000	11334.5	5982.4	4687.3	7701.1	58.6	21.6	39.1	60.9
2001	12811.1	6395.2	5006.8	8421.2	60.9	21.7	40.5	59.5
2002	14170.7	6954.8	5462.0	9250.7	61.5	21.5	41.0	59.0

Sources: Calculations are based on the data in *China Statistical Yearbook, 2002*, published by the NBS and *Statistical Bulletin* of various regions, 2002.

Notes: Relative gap = (big value - small value) / big value × 100%. Relative level of per capita GDP in the western regions takes the regional average level as 100. The data of 2002 do not include Tibet.

country has somehow been held in check to a certain extent.

In addition, imbalanced regional economic growth has led to the widening of regional disparities in economic development. In 2002, the relative gaps between the eastern and western regions, between the western and central regions and between the western regions and the regional average were 1.6, 1.1 and 1.8 percentage points larger than in 1999 (see Table 4). The relative gap in per capita GDP between the western and eastern regions grew by 0.65 percentage points annually, the gap between the western and central regions grew by 0.65 percentage points annually, and the difference compared with the regional average was enlarged by 0.68 percentage points in 1996-1999. However these figures for 2000-2002 were 0.53, 0.37 and 0.60 percentage points. This shows that since the launch of the western China development drive, annual differences have assumed a downward trend, although the gaps in per capita GDP are still growing.

V. Industrial Restructuring and Specialty Industry Development

Since the launch of the western China development drive, the pace of industrial restructuring

in the western regions has accelerated. In 1999, the ratio of the primary, secondary and tertiary industries in the 12 provinces and autonomous regions in the western part of the country was 23.8:41.0:35.2. However, by 2002 the ratio had become 20.0:41.5:38.5 (see Table 5). Relatively speaking, the tertiary industry in this area has developed rapidly due to the push by the large-scale infrastructure construction, especially transportation and tourism. At present, the added value of the tertiary industry in the western regions has exceeded that in the central regions, and is closer to that of the eastern areas. In 2002, the agricultural added value in the 11 provinces and autonomous regions in the west rose by 3.8 percent from the previous year (not including Tibet), slightly higher than that in the eastern regions (3.1 percent) but lower than that in the central areas (4.9 percent).³

The size of industry in the western regions is small, the development level is low and the pace of industrialization is slow. In 2002, the proportion of industrial added value in the 11 provinces and autonomous regions of western China in the GDP was only 32.1 percent (not including Tibet), far lower than in the 11 provinces and cities in the eastern regions (43.1 percent) and the 8 provinces in the central regions (39.6 percent). The slow industrial growth has led to an annual drop in the proportion of industrial added value in the national total (see Table 6). In terms of the share of industrial output value, it made up 11.2 percent of the national total in 2001, 59.3 percentage points lower than that in the eastern regions, which was 70.5 percent. In 2002, the gross industrial output in 12 provinces, cities and autonomous regions in the west dropped further to 9.99 percent as against 74.16 percent in

Table 5. Composition of Added Value
of the Three Industries in Various Regions (%)

	1999			2002		
	Primary	Secondary	Tertiary	Primary	Secondary	Tertiary
11 provinces and cities in the eastern regions	12.6	48.7	38.7	10.2	48.9	40.9
8 provinces in the central regions	20.8	45.4	33.8	17.7	46.6	35.7
12 provinces, cities and autonomous regions in the western regions	23.8	41.0	35.2	20.0	41.5	38.5

Sources: Calculations are based on the data in *China Statistical Yearbook, 2000* and *China Statistical Abstract, 2003*, published by the NBS.

Note: The data of 2002 do not include Tibet.

³ Calculated according to the data in *China Statistical Abstract, 2003*, published by the NBS.

Table 6. Industrial Added Value
of Various Regions in National Total (%)

	1998	1999	2000	2001	2002
National Total	100	100	100	100	100
11 provinces and cities in the eastern regions	59.1	60.1	61.1	61.4	61.8
8 provinces in the central regions	26.2	25.5	25.0	25.0	24.8
12 provinces, cities and autonomous regions in the western regions	14.7	14.4	13.9	13.6	13.4

Sources: Calculations are based on data in *China Statistical Yearbook*, various years and *China Statistical Abstract*, 2003, published by the NBS.

Note: The data of 2002 do not include Tibet.

the 11 provinces and cities in the eastern regions, and 15.85 percent in the 8 provinces of the central regions (calculated by 1990 price) (Project Group of the Western China Development Study Center of the Chinese Academy of Social Sciences, 2003, pp.11-12). This shows that industrial productivity has still been converging on the coastal areas, even after the launch of the western China development drive.

The production capacity of coal, petroleum, natural gas and power and other energy industries has been moving toward the western regions, while manufacturing has been further converging on the east. Manufacturing in the western regions is weak in competition; its growth rate is slow, and the proportion it contributes to the national total has been dropping (see Table 7). In terms of annual drop, the manufacturing output value in the western regions averaged 0.32 percentage points in 1986-1999 and 0.37 percentage points in 2000-2001. This shows that compared with 1998-1999, the drastic drop in the share of manufacturing has been somehow checked since the launch of the western China development drive, but there was no fundamental turn for the better.

In terms of industrial organizational structure, small enterprises, especially non-governmental small enterprises, have grown rapidly since reform and opening up, contributing greatly to the economic prosperity in the coastal regions. In contrast, small enterprises in the west have been slow in development, with limited contributions to the regional economic growth. In the industrial added value of 2002, large enterprises in the eastern regions made up 47.0 percent, while in the western regions, the percentage was as high as 61.0 percent, 14.0 percentage points higher than that in the eastern regions; small enterprises in the eastern regions made up 40.4 percent, however those in the western regions made up only 24.0 percent, 16.0 percentage points lower than in the eastern regions (see Table 8). In terms of sources of industrial growth, although more than half of industrial growth in both eastern and western regions comes from large enterprises, the large- and medium-sized enterprises in the central and western regions contribute more to industrial growth than in the eastern regions, and smaller enterprises contribute relatively less. This

Table 7. Percentage of Output Value of Manufacturing in Various Regions in National Total

	1985		1997		1999		2001	
	Total output value (billion yuan)	Percentage (%)	Total output value (billion yuan)	Percentage (%)	Total output value (billion yuan)	Percentage (%)	Total output value (billion yuan)	Percentage (%)
11 provinces and cities in the eastern regions	467.557	59.83	3958.432	66.00	4588.898	71.67	6185.115	73.46
8 province in the central regions	194.936	24.94	1303.878	21.74	1121.871	17.52	1385.861	16.46
12 provinces, cities and autonomous regions in the western regions	118.982	15.23	735.227	12.26	691.715	10.81	848.477	10.08
National total	781.475	100	5997.537	100	6402.484	100	8419.453	100

Sources: Calculations are based on data of the second national industrial survey, *Industrial Statistical Annual Report* and data published by the NBS.

Table 8. Structure of Total Industrial Output Value and Added Value of Different Types of Enterprises in the Three Regions

Year	Region	Structure of industrial output value of different types of enterprises (%)			Structure of industrial added value of different types of enterprises (%)		
		Large	Medium	Small	Large	Medium	Small
1999	National	43.4	13.6	43.0	48.7	12.9	38.4
	Eastern regions	39.9	13.4	46.7	44.2	13.0	42.8
	Central regions	49.5	13.7	36.8	54.5	12.7	32.8
	Western regions	56.2	14.5	29.3	61.6	12.8	25.6
2002	National	46.2	12.8	41.0	50.7	12.5	36.8
	Eastern regions	43.3	12.8	43.9	47.0	12.6	40.4
	Central regions	52.4	11.5	36.1	56.7	10.8	32.5
	Western regions	56.3	15.4	28.3	61.0	15.0	24.0

Sources: Calculations are based on data obtained from *Industrial Statistical Annual Report*, 1999; the *Industrial Statistical Annual Report*, 2000 and *China Industrial Economy Statistical Yearbook*, 2003, compiled by the NBS.

shows that the western regions depend mainly on large enterprises, especially state-owned large enterprises. The position occupied by small enterprises in the west is not significant

in economic development, and their roles are far from being displayed. It presents a sharp contrast to the coastal regions.

At present, the serious lag in the development of small enterprises in the western regions is attributable to three major factors: The first is the low level of market development, and non-state sector of the economy is slow in development. In some areas, due to underdevelopment of markets, the level of social services is quite low, and such intermediary organizations as technical and information service, consulting and training are underdeveloped. The threshold for enterprise access is high, and the investment climate is poor. All these matters have restricted the development of private, township and village enterprises. The second factor is the lack of conditions necessary for the development of industries. At present, the service network in the western part of the country is underdeveloped; the matching conditions for industrial development are poor, falling far short of the demands of economic development. The third factor is that government support and service systems are not sound. Due to underdevelopment of the guarantee fund for small- and medium-sized enterprises (SMEs) and venture capital, underdevelopment of all kinds of intermediary organizations and low government work efficiency, enterprises find it difficult to get financing; their production cost is relatively high; and technical information is lacking, hence leading to their low competitiveness.

VI. Export and Utilization of Foreign Capital

Despite all the achievements in opening up since the launch of the western China development drive, the western part of the country still has a big gap to bridge with the eastern part. In 2002, the dependency on foreign trade and foreign capital of the 12 provinces, cities and autonomous regions in the west was only 8.51 percent and 0.83 percent, far lower than the national average and even lower than the level of the eastern regions (Yu, 2003, p.279). What is more important is that in recent years the percentage contribution of the western regions, to total exports, has been dropping steadily (see Table 9). This means that the export capacity of the western regions is poor and their products lack international competitiveness. That is why exports have little role to play in pushing the regional economic growth. Conversely, exports have been one of the major forces behind the high-speed growth in the eastern part of the country.

Utilization of foreign capital has increased fairly fast in recent years, thanks to the incentives of the western China development policy, but the total amount is quite small, and its percentage of total foreign capital utilization is lower than the average level in the past. In the recent three years, that is, from 2000 to 2002, the percentage of the national total, of foreign direct investment actually used in 10 provinces, cities and autonomous regions in the western regions dropped from 3.0 percent to 2.68 percent, and the percentage of 12 provinces and autonomous regions in this region dropped from 4.55 percent to 3.80 percent (see Table 10). What is more important

Table 9. Percentage of Total Exports of the Three Regions in National Total

	1998	1999	2000	2001	2002
11 provinces and cities in the eastern regions	90.52	91.26	91.04	91.67	91.75
8 provinces in the central regions	5.04	4.78	4.98	4.93	4.45
12 provinces, cities and autonomous regions in the western regions	4.44	3.96	3.98	3.40	3.80

Sources: Calculations are based on data in *China Statistical Yearbook*, various years, published by the NBS and data provided by State Administration of Customs.

is that in 2002, the amount of foreign direct investment actually used in this region was even 1.4 percent less than in the previous year. In fact, foreign direct investment has been mostly converging on the Yangtze River Delta area since China became a WTO member.

Apparently, such imbalanced distribution of foreign investment has had an important impact on the structure of capital, the progress of industrialization and the development of an export-oriented economy in various regions. In 2002, the total amount of foreign capital used was equal to the total fixed assets investment. That in the eastern regions made up 15.9 percent while that in the central and western areas was only 4.5 percent and 1.7 percent, respectively. In the same year, the percentage of added value realized by foreign-funded enterprises in the national total was 34.6 percent in the eastern regions but only 9.7 percent and 6.5 percent in the central and western regions. The contribution of industrial value added generated by foreign-funded enterprises, to the total, by all state-owned and non-state-owned enterprises of scale, in the eastern regions accounted for 34.6 percent, while only 9.7 percent and 6.5 percent by the central and western regions. At the same time, the

Table 10. Foreign Direct Investment Used in Western China

Year	National total (billion US\$)	Western China (10)		Western China (10+2)	
		Amount (billion US\$)	Percentage in national total (%)	Amount (billion US\$)	Percentage in national total (%)
2000	40.715	1.222	3.00	1.852	4.55
2001	46.878	1.431	3.05	1.922	4.10
2002	52.743	1.411	2.68	2.005	3.80

Sources: calculations are based on data obtained from *China Statistical Yearbook*, 2003 and *China Statistical Abstract*, 2003, published by the NBS.

Notes: Western China (10) includes Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Ningxia, Qinghai and Xinjiang. Western China (10 + 2) refers to western China (10) plus Guangxi and Inner Mongolia.

Table 11. Imports and Exports by Foreign-Funded Enterprises in Regional Total (%)

	1999			2000			2001			2002		
	Imp. & exp.	Exp.	Imp.									
National total	48.4	45.5	51.8	49.9	47.9	52.1	50.8	50.1	51.7	53.2	52.2	54.3
Eastern regions	51.4	48.7	54.6	53.0	51.4	54.8	54.0	53.6	54.4	56.2	55.7	56.9
Central regions	22.2	15.4	30.6	19.9	15.7	25.3	21.1	16.1	27.2	22.0	16.4	28.5
Western regions	12.0	9.1	14.9	12.9	10.0	16.3	12.3	10.0	14.7	12.4	9.9	15.4

Sources: NBS: *China Statistical Yearbook*, 2002.

total industrial output value generated by foreign-funded enterprises to the total, by all state-owned and non-state-owned industrial enterprises of scale in the eastern regions, was 36.8 percent, while that of the central and western regions made up only 10.9 percent and 7.4 percent. Exports by foreign-funded enterprises made up 55.7 percent of the total in the eastern regions, while that of the central and western regions made up only 16.4 percent and 9.9 percent respectively (see Table 11). This shows that the eastern part of the country owes its great industrialization progress in recent years to foreign investment. The role of foreign investment has not been so significant in the central and western regions.

Obviously, since the launch of the western China development drive, especially since China became a WTO member, state investment has been biased toward the western part of the country. However foreign investors have failed to keep pace. There are three reasons: (1) After China's accession to the WTO and with the acceleration of economic globalization, multinational corporations have usually tended to seek the most favorable places for production, and incorporate them into their global industrial chains. In the global industrial chains, the option for investment in the coastal areas of China is not only favorable for the corporations to strengthen ties with their headquarters and related enterprises overseas but also for the import and export of raw materials, equipment and products. (2) The central and western parts of China still have a big gap to bridge with the eastern coastal areas with regard to infrastructure facilities, government work efficiency, investment climate, business culture and necessary conditions for industrial production. (3) Preliminary investigations and feasibility studies are required before making investment decisions. Some foreign investors are still at the preliminary stage, and some are still holding a wait-and-see attitude.

VII. Conclusions

With the powerful support provided by state policies, investment in the western part of the

country has increased significantly since the launch of the western China development drive. Much progress has been made in the construction of infrastructure and ecological environment, and economic development has sped up. However, due to many reasons, there are still some problems in the implementation of the western China development strategy. First, after the launch of the drive, the state has significantly increased investment in western China but non-government capital and foreign investment have failed to keep pace, still holding a wait-and-see attitude. Second, all the local governments have put the emphasis of their investment in infrastructure and ecological construction and have not paid enough attention to specialty industries, especially processing and manufacturing, leading to slow progress in industrialization, dropping competitiveness and market shares, thus depriving western China of the necessary industrial support for a long-term development. Third, although the economic growth rate has progressively increased in western China, the gap between the western and eastern regions has further enlarged, and it will be a long-term arduous task to narrow the regional disparities. Fourth, the western part of the country has lagged far behind in its investment climate, falling far short of the demands of economic development. The west's share of foreign investment and exports in the national total has been dropping steadily; the development of an export-oriented economy has been slow, contributing little to the growth of the regional economy. Finally, some large projects financed by the state in this area are not quite relevant to the local economy and the procurement and contracts of some of them have mainly been undertaken by entities from the eastern areas. Therefore they have not had as much pulling and multiplier impacts as we expected. These are apparently problems on the road of advance that call for solutions in the course of the western China development drive.

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