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MODERNIZATION, REFORMS AND REGIONAL DEVELOPMENT IN CHINA

Abstract

As China is heading towards the status of a developed country, fierce contest is taking place between the market and the state. At the start of the economic reforms, the market was seen as the healing factor and the catalyst for China's underdeveloped economy, but globalization and the growing presence of different economic forces have challenged the credibility of these reforms. The regional policy and the increasing gap between the regions is an example of such dichotomy. Development under Mao and Deng Xiaoping was linear in nature. The inward flow of resources in Mao's era and the development of the coastal region under the preferential policies of Deng represented the linear mindset of development. The growing regional economic disparity in China in the post-1978 reforms questions the basic motive of modernisation efforts. This paper presents and analyzes this paradox between reforms and disparity. The accession to WTO and the wave of globalization have further made the scenario very critical.

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Introduction

In the era of globalization the tasks and challenges of the Chinese government have increased. The various crises in urban China have resulted from the reforms. Despite the impressive economic growth, the economic reforms have also resulted in certain negative effects on China's economy and society. With the opening of the economy, China introduced various economic policies to boost the deteriorating health of the country's economy and regional policy was one of them. Although the policy of this kind was new and assuring in terms of economic development, it was also one of the most controversial policy packages in terms of its objectives, tools and effects.

The continuous process of economic reforms since 1978 is seen as a tool for the modernization of China. The new phenomenon of 'market socialism' was allowed to take over the charge of the country's economy. It was evident that the new leadership under Deng Xiaoping was ready to let a 'risk factor' play a role in its highly state-controlled economy. The opening of the coast for the adoption of 'free play of the market forces' was in itself a deliberate effort to permit a particular region to emerge rich, faster than the rest of the regions. Perhaps, what Chinese leaders and economists envisioned was a "ladder-step" economic development.¹ The doctrine in its first stage was expected to aim at 'fission' of economic progress and in the later stage to concentrate at the 'fusion' of economic gains towards those which are lacking it.² Now

1 Yang, Dali J., *Beyond Beijing: Liberalization and the Regions in China* (London, 1997)

2 Yang argues the logic of this doctrine as follows: The coastal region already possesses significant industrial qualification; hence it is easier to turn the coastal region into a processing centre for inland raw materials and China's export base. Moreover, since the coastal region already possesses higher levels of technology and managerial sophistication than the others, it would be easier for it to absorb the imported advanced technology and

the question is whom did these experiments benefit? To the market or to any specific region. In other words, where do these experiments stand in China's transforming market economy? The scenario has put the Chinese modernization process under scrutiny. To analyse this emerging scenario, more specifically, the regional economic disparity has been taken as a case for this paper.

Opening up of China to the outside World

China, after rapprochement with United States in 1971, started moving closer to the West, and its international isolation came eventually to an end. Beijing dramatically increased imports of industrial supplies and foreign technology, particularly for coal plants, and expanded the exports of agricultural goods and raw materials. China began to open its market to the outside world in 1973. It was decided to revise its development strategy, end isolation, open up to the outside world, increase exports and raise the status of exporting industries. By 1975, the country's total foreign trade had reached nearly \$ 15 billion, an increase of more than 250 percent in only six years; and export rose to 5 percent of national output, the highest level in the history of the People's Republic.³ But for the foreign ventures it was easy to do business in China. The continuing interference by the political elites started blocking the path of foreign investment. Under the prodding of the "Gang of Four", for example, Chinese leaders in the mid-1970s refused to accept foreign investment, foreign aid, or foreign loans. With the fall

develop indigenous capabilities for technical and economic innovations. Then it will be able to diffuse that technology throughout the economy. Therefore, it is important to concentrate on developing the coastal region first... In essence, the "ladder-step doctrine" is akin to the liberal argument that development will diffuse gradually from the centre to the periphery. (See Yang, n. 1, p. 28)

3 Harding, Harry, *China's Second Revolution: Reform after Mao* (Washington D. C., 1987)

of the "Gang of Four" and the rise of reformists, the discussion to open up China took place in the third party plenum in 1978.

Integration with the world economy would have benefited China's economy in different ways. Shirk argues that the reason for this change was that "Deng Xiaoping and his allies concluded that ...no country had ever achieved modernization by "closed doorism".⁴ Deng warned that China should not adopt a closed door attitude and refuse to learn from the good things of foreign countries".⁵

Second Revolution and Regional Policy

Before 1980, the fundamental characteristics of China's regional policy can be summarized as having a centralized and unified relationship between the central and provincial governments, as well as a strong politically related regional development strategy. The economic management system operated under a 'vertical setup', using state ministries and commissions, as well as national banks and their local branches as the main body to control various economic activities of the localities. Strategies adopted for the regional layout and investment distribution were related to national defence considerations – e.g., the large scale westward shift of production layout in the 1960s and 1970s rather than the criteria of regional comparative advantage and economic efficiency.

The emphasis during the Maoist era was on eradicating regional industrial disparities through interior-oriented investments. Mao consciously tried to implement a policy that was said to be drafted for China's equal regional development. In the post-1949

4 S. Shirk, (1993), quoted by David J. Pyle, *China's Economy* (London, 1997), p. 107.

5 Harding, n. 3, p. 133.

nation-building process, Mao's "On the Ten Great Relationships" (1956) was born, which in fact stressed both the coastal and interior development. In reality, a little more emphasis was paid to the interior region that claimed nearly 56 percent of the state investment in fixed assets of that period.⁶ Irrespective of the matter of its feasibility, the then Chinese leaders upheld the concept of 'interior oriented development'.⁷ This was the first such Marxian method to establish regional equality. Chinese scholars had widely accepted regional development during the First Five-Year period (1953-57) and was rational and reasonable in terms of balanced development or 'equality and efficiency'.⁸

In contrast, China under Deng Xiaoping has gradually, but decidedly, reversed the Maoist development strategy and came to adopt a new development strategy that has been associated with Deng's call for some people and some areas to become rich first before attaining the goal of common prosperity. The new regional policy was marked by two characteristics like cross-regional policy

6 Yang, Dali, "Pattern of China's Regional Development Strategy", in *The China Quarterly*, no. 122, 1990, pp. 230-31.

7 Here, it is not necessarily understood that Mao's efforts of regional development were successful in totality. It is the international situation and the impact of Soviet economic reforms along with the perceived security threats that compelled Mao to adopt such policies. The worsening Sino-Soviet relations and US involvement in Vietnam led Mao to perceive rising threat and insecurity in China's strategic environment and thus an urgent need to enhance China's national defense capabilities to prepare for a world war that was believed to be both inevitable and imminent. (Deng, Xiaoping, *Selected Works of Deng Xiaoping*, Vol. 3, (Beijing, 1993), p. 127) This was the reason for the launch of 'Third-front program' which was centred on heavy industry. As Yang has argued, the entire third front build-up was dictated by considerations of military strategy rather than economic efficiency. But at the same time he emphasized that "the third-front programme was massive by any standard and in sharp contradiction to Mao's statement on regional balance in his speech on the ten great relationships" (Yang, n. 1, p. 19)

8 Xuwei, Hu, "On China's Special Development Strategies", *Shengchan Buju yu Guotu Guihua* (Productive Location and Territorial Management) (1988), Cited Zhao, Simon Xiaobin, "Reforms and Regional Inequality in China: 1953-89", in *China Report*, vol. 303, no. 3, July-Sept. 1994, p. 392.

differentials and decentralization. The newly introduced regional policy provided strong momentum to most of the coastal provinces and caused criticism from inland provinces against the unfairness. Such a policy was enunciated clearly by Zhao Ziyang in 1987 at the Thirteenth National Congress of the Communist Party of China. He said "It is necessary to consolidate and develop the pattern of opening to the outside world that has begun to take shape, with the open policy extending progressively from the special economic zones to coastal cities, then to coastal regions and finally to the interior areas. With the overall interest of the national economy in mind, we should draw a correct development plan for all these zones, cities and regions. They should focus on development of the export-oriented economy and expand their horizontal economic ties with the interior areas, so as to serve more effectively as a base for implementing the open policy and as a window open to the outside world.⁹ China under Deng Xiaoping has unabashedly pursued a strategy of unbalanced regional growth. Uneven development measures were adopted towards the regions in order to benefit those who enjoyed superior factor endowments compared with the interior. The Third generation leadership also showed its inclination to follow the policies of Deng. Li Peng, in introducing the Ten-year Programme for National Economic and Social Development (1991-2000), promised to continue the basic strategy of developing coastal areas. Policies for this involve "better management of the existing special economic zones, consolidating and developing the existing economic and technological zones, open cities and areas and

9 Ziyang, Zhao, "Advance along the road of socialism with Chinese characteristics", Report delivered at the Thirteenth National Conference of the Communist Party of China, 22nd October 1987, p. 27 in *Document of the Thirteenth National Congress of the Communist Party of China* (Beijing, 1987)

stepping up the development of the new Pudong area in Shanghai”.¹⁰ More concretely, the post-Mao Chinese leadership has not only relaxed the straitjacket on the coastal region but has come to rely on the coastal region to provide the ‘engine of growth’ for China, as it strives to catch up with its neighbours in economic development.¹¹

The Role of Special Economic Zones (SEZs)

The reform of 1978 focused on increasing China’s interaction with international economy. Under China’s pre-reform system, the sectoral foreign corporations had taken all decisions about foreign trade. However, this system would be difficult to operate with a vastly enlarged foreign trade account. Greater authority was granted to ministries and to local-municipal governments so as to allow them to engage in foreign trade transactions. This system was further devolved in order to bring corporations, enterprises and factories in contact with foreign firms, presumably in the hope that this would expose them to the benefits of international comparative advantage and co-operation. Government started encouraging foreign trade companies to form joint operations with productive enterprises so that, for the first time, a single organization became responsible for production and marketing.¹² The localities were allowed to retain a portion of the foreign exchange, which they earn through foreign trade. China increased its economic relations with other powers. Beijing started welcoming direct foreign investment. To justify their proposal and to welcome foreign investment in the country, Chinese leaders described it as a form of ‘State Capitalism’.¹³ They hoped

10 *China Daily*, 12 April 1991.

11 Yang, n. 1, p. 15

12 · Harding, n. 3, p. 137

13 *ibid.*, p. 159.

these foreign entrepreneurs to play a constructive role in China's economic development. Loans were negotiated and foreign businessmen were encouraged to participate in joint investment enterprises in China. At first, cautious Chinese leaders intended to limit the scope of foreign investment in their country to particular organizational forms (the equity joint venture as the organizational format) and particular geographic regions (Four Special Economic Zones).¹⁴ SEZs worked as a window for the foreign investors to come in. Beijing designated certain parts of the country firstly into four special economic zones in the southeast, then fourteen 'open cities' and Hainan island, and three 'larger development zones' along the southern coast to be front runners in absorbing foreign technology, introducing foreign capital and expanding Chinese exports to foreign markets.¹⁵ China's efforts to open up its economy to the world have been more successful than most people expected when the open door policy was first unveiled. Large amount of foreign investment is pouring into the mainland, particularly into the coastal regions and special economic zones. The resulting business ventures have enabled overseas Chinese investors to exploit their comparative advantages in technology, entrepreneurial ability, and culture.

14 *ibid.*

15 China designated four areas along the southeast coast – Shenzhen, Zhuhai, Xiamen, and Shantou – as special Economic Zones in 1979. "By middle of 1986, some more areas were created to attract foreign investment. Three development triangles in South-eastern and central China – The Pearl river, Min river, and Yangtze river deltas had been identified as trade and investment promotion zones. These regions were expected to do the same job, which SEZs were doing. Like the SEZs, these regions are a base for exports and a filter to digest the World's modern science and technology and advanced managerial methods... so as to discard the dross and select the essential." (*Banyuetan*, no.4, Feb. 25, 1985 quoted by Harding, n. 41, p. 167).

Actually, the process of establishment of SEZs started with Hua Guofeng's initiatives. After the downfall of the Gang of Four, Hua Guofeng initiated a large-scale programme for importing western technology and equipment. Chinese decision-makers saw the advantages of zones to economic development¹⁶ and the ideas of some sort of economic zones was brought in March 1979.¹⁷ Deng, by allowing the establishment of SEZs, wished to set an example for others to emulate, and that is why some people and some regions were encouraged to become rich first. On 24 February 1984, Deng himself stated "A special economic zone is a medium for introducing technology, management and knowledge. It is also a window for our foreign policy. Through the SEZs we can import foreign technology, obtain knowledge and learn management."¹⁸ The implementation of this policy, in real sense, opened the gates of new avenues to China's economy. The opening of SEZs made China not only to stand but also made it capable to compete with big powers in the world market. The policy of 'to open, not to close'¹⁹ through SEZs proved successful. "The coastal regions attracted 85 percent of foreign investment. The 120,000 foreign-funded companies, employing nearly 10 percent of the urban work force, accounted for 47 percent of the country's foreign trade. In Guangdong, the figure was 54 percent and in Tianjin as high as 70 percent."²⁰

16 Prior to 1978, Chinese officials regarded export promotion zones in many developing countries as a manifestation of contemporary imperialism and new colonialism.

17 Zhang, Wei-Wei, *Ideology and Economic Reform under Deng Xiaoping 1978-1993* (London, 1996), p. 76.

18 Deng Xiaoping, "Make a success of Special Economic Zones and Open more cities to the outside world", *Selected works of Deng Xiaoping*, vol. II (1975-1982), Cited online at www.english.peoplesdaily.com.cn

19 *ibid.*

20 Becker, Jasper, *The Chinese* (New York, 2000), p. 121.

The adoption of open door policy, and making of coastal region as a laboratory region for the capitalist experiment, itself showed that China has adopted an uneven, imbalanced regional development strategy. The uneven strategy allowed differential development among the regions and granted preferential policies to the coastal region so that it might develop faster and become the engine of growth for the country. The new policy and strategy are totally different from the traditional and balanced development policy and the interior-oriented strategy.²¹

Regional Economic Disparity

Though the Chinese government is committed to egalitarianism, they could not stop inequality to sour the results of economic reforms. While, reforms in China have unleashed tremendous economic growth, there is growing concern that the fruits of this growth have not been enjoyed equally. Increasing income disparities are posing a serious challenge to the Chinese government. Concern over regional income disparities has also been growing. The booming coastal provinces have benefited from greater investment since the onset of economic reforms. As a result of the rapid income growth in the economically advanced coastal areas, the income differentials vis-à-vis the less developed interior provinces have widened. According to a survey of 33 provincial officials across China, social turmoil will grow if income gaps between rich and poor regions continue to widen.²² There are large disparities in wage incomes between the urban and rural residents, between different regions and even among the urban residents.

21 Liou, Kuotsai Tom, *Managing Reforms in Post-Mao China* (Westport, 1998), p.65.

22 *The Business Times*, 23 November 1994.

The signs of serious income disparity began to grow up soon after the Chinese government made available the favourable conditions for some regions and individuals to get rich earlier through special and preferential policies. Though the effort to make 'some' rich and to make others follow later fascinated many but it eventually led to income disparities. The coastal versus interior areas is no more a secret. Irony is that the number of industrial labour force worked and lived in eastern China was almost 49 percent of the total number in 1996,²³ and the other parts of the country, which are rich in resources, still remained deserted. Only one fourteenth of the nations coal reserves are located in coastal regions, while more than 92 percent of its coal deposits are in the interior. About 90 percent of the nation's forests are in the central and western areas, while less than 10 percent are in its coastal regions.²⁴ And as far as foreign investment is concerned, the coastal areas possess a well-developed financial base and manage a relatively high level of capital accumulation. The flow of the foreign direct investment is making the coastal regions richer. In the long-term, capital flow may permanently seal the path of progress of the interior. (See Table 1)

23 Han, Taejoon, "China: A Shared Poverty to Uneven Wealth?" Cited at <http://www.gwu.edu>

24 *ibid.*

Table 1 Regional Distribution of Foreign Investment

(Percent)

Year	Eastern	Central	Western
1990	86.20	10.92	2.89
1991	83.49	12.74	3.77
1992	84.41	10.08	5.51
1993	86.47	9.95	3.57
1994	84.32	12.04	3.64
1995	83.50	12.48	4.02
1996	84.24	12.27	3.48
1997	82.62	13.01	4.38
1998	82.92	13.01	4.07
1999	88.03	9.22	2.75
2000	88.01	9.02	2.91

Source: China Statistical Yearbook, various volumes

The scene of foreign direct investment in the heydays of economic reforms, that is in 1990s, tells the story of regional economic disparity very clearly. The FDI situation in China is immensely polarized. The ten coastal provinces, that account for 36 percent of the population actually absorb over 85 percent of FDI (see Table 1).

As the Table shows, while the coastal attracted on average 84.9 percent of the total FDI flow in the 90s, the Central provinces hardly received 11.3 percent, and such flow area in Western provinces was very meagre at about 3.7 percent. The heavy concentration of FDI in the coastal provinces caused an aggravation of economic and social disparities. Lack of sufficient industrial linkages between the provinces, the low level of inter-regional co-operation and the relatively underdevelopment level of domestic economic integration have impeded the dissemination of the benefits of FDI in coastal areas to other parts of the country

Simple comparisons of average incomes between regions do not reveal dramatic regional disparities. Though the surface growth rates have been high in each of the three regions and also in each of

the provinces within each region, the actual situation of regional inequality, both between urban and rural areas and between rich and poor provinces also increased over the same period. The regional disparity consequently gave a fillip to the disparity between urban and rural areas and between social strata and is considerably greater than between regions themselves. Table 2 summarizes the regional picture. The continuing regional disparities in income and level of development within the country have been reflected in the poverty levels in the Western and some Central provinces. This is illustrated in table 3 which summarizes the provincial growth rates and the official rural poverty estimates for the 12 provinces now classed as being part of the Western region.²⁵

Table 2 Regional Trend

	Eastern Region	Central Region	Western Region
Per Capita GDP growth 1981- 1999*	10.9%	8.4%	8.1%
Regional GDP per capita [†] 1999 national average = 100	157%	75%	56%

Source: Weiss, p. 7.

Note: * GDP per capita is at 1980 prices using provincial GDP deflators and growth rates are calculated as time trends.

+ As above GDP per capita is at constant 1980 prices.

25 Guangxi and Inner Mongolia have recently been added, although geographically they are in the center of the country.

Table 3 Western Region: Rural poverty and GDP growth by province

Province	GDP Growth 1980-2000 (%)	Numbers of rural poor (million) 1996	Poverty incidence Headcount (%) 1996
Southwest		20.7	10.5
Chongqing	9.3	1.6	6.6
Sichuan	9.0	4.9	7.0
Guizhou	9.1	3.8	12.8
Yunnan	9.9	7.7	22.9
Tibet	8.3	0.2	10.1
Guangxi	9.4	2.5	6.4
Northwest		14.3	18.6
Inner Mongolia	10.2	1.3	
Shaanxi	9.6	4.8	17.5
Gansu	9.1	4.5	22.7
Qinghai	7.6	0.6	17.7
Ningxai	9.5	0.7	18.5
Xinjiang	10.4	2.7	27.4
National rural		58	6.3

Source: Weiss, p. 8

Roughly 60% of rural poverty by the official definition is in the Western region²⁶ and the region's share in the country's total GDP per capita is 56% to that of 157% of the Eastern region. If one analyses the disparity on the basis of per capita annual GDP growth, one may not find the disparity existing among the regions. The data also indicates that the Western provinces had a significantly higher incidence of rural poverty.

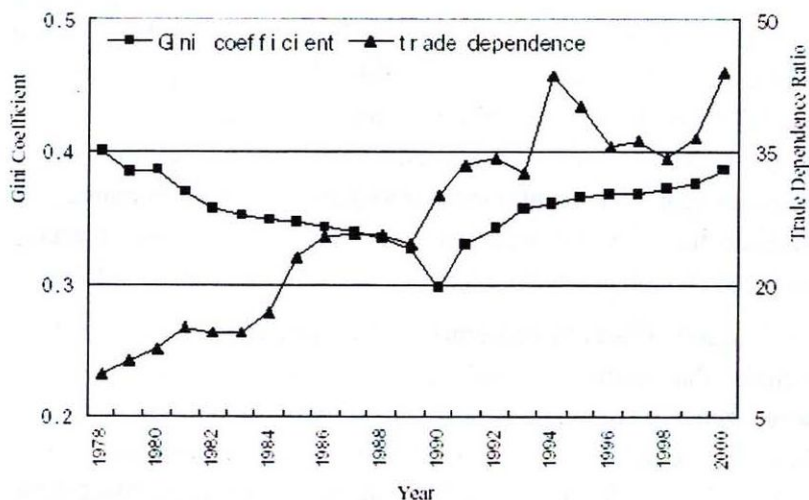
26 Weiss, John, "Explaining Trends in Regional Poverty in China" (Asian Development Bank Institute, December 2002), Cited online at www.adbi.org/PDF/PRC-Povertypaper.pdf

Now speaking in terms of Gini coefficient²⁷, as shown in the Figure 1, the openness has rapidly expanded since the reform, whereas the regional disparities have also widened. The calculated Gini coefficient of income by region went down from 0.35 in 1978 to 0.25 in 1990, and then went up to 0.34 in 2000. The national average growth rate of per capita GDP was 8.6 percent with a large variation between provinces in 1978-1998 – the actual growth in each province did not put up a trend of convergence.

The widening of regional gap is mainly due to the regional difference in economic structure, notably the share of SOEs, infrastructure, and geographical location. All in all, economic policies acquired the prime position. The outcomes of the economic reforms put the Chinese leaders in a more critical condition.

27 The Gini coefficient is a measure of the correlation between the Lorenz curve (the inequality line) and the diagonal line (equality line). If the Lorenz curve line tracks the diagonal line exactly, indicating complete equality, then the value of the coefficient would be zero. If all income is in the hands of the ruler individually, then the value is one. Thus, the values of the Gini coefficient are from zero to one: the closer to one, the greater the inequality. According to the *Penguin Dictionary of Economics*, A coefficient, based on the Lorenz curve, shows the degree of inequality in a frequency distribution. It is measured as: $G = \frac{\text{Area between Lorenz curve and 45o Line}}{\text{Area above the 45o Line}}$ If the frequency distribution is equal, the Lorenz curve coincides with 45o Line, and $G = 0$ (Bannock, Graham, et al. (Eds.), *Penguin Dictionary of Economics* (London, 1998), p.176.)

Figure 1: Regional Disparity in Income and Openness in China, 1978-2000



Source: NBS, *The Provincial Data in 50 Years of People's Republic of China (1999)*, *China Statistical Yearbook (2000, 2001)*, China Statistic Press, Beijing.

Conclusion

The coastal region throughout this period has remained the major beneficiary. This was the obvious effect of the deliberate policy measures by the government. The coastal provinces have attained greater integration into the international economy through trade and investment, which has contributed to a noticeable divergence in regional growth rates. In the 1990s the government consciously tried to reduce the regional income differences, by allowing foreign investments to avail an attractive opportunity of relatively lower costs of production, in the interiors. This flow of local and foreign investment into the 'hinterland' is already underway but it seems too difficult to reduce the income disparity as

the region lacks substantial infrastructure investments involving significant inter-regional fiscal transfers.

The recent rise in coast-interior inequalities has led Chinese politicians and economists to reconsider the post-Mao emphasis on coastal development. National politicians in China now espouse the position that the state should endeavor to bring about a more balanced economic development among the regions. The question is whether the Chinese state will be able to effectively promote balanced economic development in a market economy.

Mao's efforts to modernize China were too hasty and did not include the neatly planned steps of such a programme. The programmes were implemented on the basis of the number rather than the actual need. It seems that merely constructing heavy industrial sector for Mao meant a modernization because most third-front projects were built in areas that lacked proper infrastructure. The limited funds were spread over too many projects; the third-front projects generally took a long time to build and thus tied up great amounts of investment funds and yielded poor economic results.²⁸ Theoretically, the heavy emphasis on interior oriented policies was not compatible with the notion of equal development or the modernization drive. Liu Guoguang and others argued that "seeking to build up interior industries within a short time, without developing the old bases of coastal industry, was unrealistic"²⁹

Whereas the reforms implemented under Deng gave market forces enough margin of freedom to accelerate the pace of economic progress. The regional economic policies and the aftermath of these

28 Yang, n. 1, p. 19.

29 Guoguang, Liu *et al.*, *Zhongguo jingji fazhan zhanlue wenti yanjiu* (A Study of the question of China's economic development strategy), (Shanghai, 1984), pp. 269-70.

reforms did not stand as an exception to the rule that the “geographic transmission of development is far from automatic and tends to become polarized.”³⁰ Even though, the reforms originated out of the uneven regional development, it provided innumerable economic benefits; but it is still contradictory with the egalitarian values of the socialist state. Such economic policies always tend to show uneven regional development in the sense of concentration of resources brought in through the investment and its allocation. Myrdal used the principle of circular and cumulative causation to explain the patterns of uneven regional development in undeveloped countries.³¹ For the sake of market potential, firms tend to locate near large markets that are comprised of lots of other firms. Thus, production tends to be geographically concentrated owing to the influence of increasing returns, positive externalities, and strategic complementaries. This process is known as self-reinforcing agglomeration in regional development.³² The localities and regions that started first would gain a competitive advantage and reap increasing returns, be it in banking or industry, and would tend to retain their dominance while other localities or regions would suffer from relative stagnation. In consequence, market forces tended to increase, rather than decrease, the inequalities between the regions. Myrdal further says that “as a rule the free play of the market forces in a poor country will work more powerfully to create regional inequalities and to widen those which already exist.”³³

30 Yang, n. 1, p. 7.

31 Myrdal, Gunnar, *Economic Theory and Under-developed Regions* (London, 1997) p. 34.

32 Krugman, Paul, *Development, Geography, and Economic Theory* (Cambridge, Mass., 1995) p. 46.

33 Myrdal, n. 31, p. 34.

The modernization drive under both the leaders viz. Mao and Deng were hasty and moved away from the basic aspect of equality implied in the socialist values. Actually, both the leaders in their effort to modernize China followed a linear way of development. Mao emphasized on heavy industrialization and mass mobilization as a prime force for the modernization, while Deng recognized the need for market and allowed it to play a free role in Chinese market. Though Deng could limit the free play of market forces by constraining them to a certain group of regions but the vicious cycle of need for development, legitimacy and pro-market policy initiatives made these efforts fruitless. In both the situations, Chinese market was incompetent to follow the drastic changes occurred through the policy shifts.

China's WTO accession may further widen the disparity due to its uneven impact on sectors and on firms with different ownership. Specifically, eastern regions benefit more from WTO accession than inland regions because it has a more competitive urban economy. It is seen leaders are aware of the growing disparity and trying different means to control it but, at the same time, they are not sure of the positive outcome. The 90s have seen such similar efforts from the Chinese leaders but it could not change the scenario (Refer Table 1, 2, 3).

Throughout this period the modernization, what is more visible is the growing presence of the market forces in shaping up, country's way of development. It would be very upsetting for the leaders if these forces continue to undermine socialist values. The market forces do not follow the rule and it always plays an independent role on a market. Chinese modernization has achieved an important stage from where they cannot (even if they wish) reverse the process by eliminating the market forces. The market

forces have to remain as an actor as far as the development in China is concerned. Due to these reasons, markets are overwhelming in the Chinese economy. But Chinese leaders have to be overconscious while riding this tiger. Overpowering of the socialist values by market values may generate a capitalist threat to the system.

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