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EDITOR'S NOTE

Translated from the French original by Jonathan Hall

- 1 The articles collected in this volume analyse the relationship between the growth of global economic power and the dynamics operating in the various regions of China since the beginning of the reforms. The thirteen chapters were originally papers at a conference held in October 1998, and the diversity and richness of analysis which they offer makes this work an indispensable reference tool. In the space of this review there can be no question of summarising them all, but rather of reporting on those providing the most original and convincing contributions to the topic.
- 2 The first chapter, "On Measurement of the Openness of the Chinese Economy", belongs to this category. The authors, Jean-Louis L. Combes, Patrick Guillaumont and Sandra Poncet, introduce a stimulating discussion on the different methods for measuring the Chinese economy's openness to foreign trade and capital investment, and for comparing it with other developing economies. The analysis then moves on to the provincial situation, giving us a new insight into the degree of openness in the provinces, taking account of their commercial links from 1985 to 1992 both with the rest of China and with foreign countries. It draws the extremely interesting conclusion that the openness to foreign trade in the three major regions (Coastal, Central and

Interior) has greatly increased, whereas their dependence on transactions with other parts of China has decreased. So the increasing tempo in foreign trade has been achieved at the expense of trading links between the provinces. This divergence is particularly acute in the coastal provinces which in 1992 conducted twice as much overseas trade as with the other provinces.

- 3 The second chapter, "Social Consequences of Economic Reform in China: An Analysis of Regional Disparity in the Transition Period", by Justin Yifu Lin, Fang Cai, and Zhou Li, provides a study of the development of regional inequalities from 1978 to 1995. It shows that these have increased since the 1980s, and that the main causes are to be found in the disparities between the major regions (Eastern, Central and Western) on the one hand, and in the difference between urban and rural incomes on the other. The inequalities between the provinces are most pronounced in the Eastern region but even there they are tending to even out. As a measure for enabling these areas to catch up with the Central and Western provinces, the authors recommend the development of their transport links, along with services and rural industries.
- 4 In chapter three, "Provincial Economic Growth in China: Causes and Consequences of Regional Differentiation", Barry Naughton's analysis throws a good deal of light on the reasons why we witnessed a convergence between the provinces until 1990, when it was replaced by the current divergence. He explains this change as a result of the gradual erosion of the redistribution system and the slow reaffirmation of tendencies that had been held in check in the pre-reform period. The apparent convergence of the first phase was due to a trend with two different aspects: initially the less well-off provinces, which are predominantly rural, enjoyed a relative rise in the price of agricultural produce while the provinces whose income was artificially maintained by public investments suffered from the collapse in this source of funding. The second phase saw a return to the norm, under which the provincial growth rates were determined by the funds allocated to each province and by their industrial competitiveness. The author concludes that any return to regional convergence is ruled out because there can be no reliance on a rise in agricultural prices or on an increase in the state's ability to redistribute income. However, he notes that there are signs of the economic growth in the coastal regions spreading to the neighbouring provinces, and he recommends an increase in infrastructural investments to encourage this trend.
- 5 Chapter six deals with the impact which China's accession to the WTO had on her internal disparities. Fan Zhai and Shantong Li use a model of overall calculable equilibrium to simulate the effects of the growth in the global economy on the distribution of revenue from trade liberalisation. The article opens with a very fine description of the Chinese economy in the mid-1990s, in terms of openness and income distribution. The modelling exercise then goes on to show, unsurprisingly, that trade liberalisation leads to increased growth rates, thanks to a more efficient use of domestic resources (more in accordance with the country's comparative strengths). The main gains arise from the lowering of protective barriers for the agricultural sector, which results in falling domestic agricultural prices. This fall leads to a corresponding decrease in production, employment and income within the agricultural sector. The gains in terms of family incomes are therefore very unevenly shared, with a widening gap between rural and city dwellers. Family incomes in the cities improve, while those in the countryside worsen, when measured against a scenario based on China's not joining the WTO. At the same time the pay gap between skilled and

unskilled workers widens in favour of the former. So trade liberalisation is beneficial to growth but detrimental to equality. This leads the authors to recommend the adoption of a fiscal policy to attenuate these effects. The interest in this kind of modelling exercise lies not so much in the production of precise development data as in underlining the expected direction of structural changes, and in showing the need for corrective economic policies. It is worth pointing out that subsequent work by these two authors has extended their analysis of the impact of China's entry into the WTO, proving that it will result in a growth in domestic regional inequalities¹.

- 6 In chapter 11, Wing Thyee Woo, gives an in-depth analysis of the ups and downs in the rural industries during the reform period, seeking to explain why, after being the driving force for growth, they have been losing their dynamism since the end of the 1980s. For him the main explanation is to be found in the operations of the financial system, which deprived the small towns and village enterprises of access to bank credits and diverted financial resources towards the state sector. In this way rural savings were diverted into financing urban industry. Contrary to what might have been expected, the dynamic growth of rural industries which spread throughout the coastal provinces from the early 1980s, had not yet taken off in the central provinces by the mid-1990s. However, several indicators suggest that the rural industries in the interior regions are now beginning to enjoy better access to financial sources, in a development which the author attributes to progress in economic deregulation and a clearer definition of property rights in these provinces. In order to liberalise the financial system and allow for a more efficient allocation of resources, the author recommends the freeing of interest rates, which would ease the granting of loans to the private sector, the ending of preferential credit allocations to the state enterprises, and the opening of the banking sector to private and foreign investors. It should be noted that in 2003 these recommendations are still pending and their implementation has made little progress.
- 7 The criticisms that can be made of a book of this type are those which are applicable to any collective work bringing together contributions from different authors. The diversity of approach is the source of a great deal of rich information and analytical insights, but it sadly lacks an overview of the dynamic directions taken by Chinese regional development over the last twenty years. Another issue is the inevitable time gap between the date when the contributions were written and the date of their publication. In general, the papers delivered to the conference in 1998 deal with the situation up to the mid-1990s, that is up to the high point of a cycle that has suffered a considerable downturn since then. Since the late 1990s, the policies for new budgetary controls and public investment, which favour development in the Western provinces, have tended to rein in the growth in regional divergence. But on the other hand, the progressive opening up, connected with China's accession to the WTO, has certainly aggravated the main problems addressed in this work. These are the inexorable advance of the coastal provinces, their increasing integration into the global economy, and the tendency towards a loosening of the economic ties between the coastal regions and the interior.

NOTES

1. Li Shantong and Zhai Fan, “China’s WTO accession and implications for its regional economies”, *Economie Internationale*, No. 92, Vol. IV, 2003.