5 The many worlds of China’s provinces

Foreign trade and diversification

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‘Contemporary history no longer respects the isolation of China or any other country, by land or sea.’

Owen Lattimore, Inner Asian Frontiers of China, 1940

In the 1980s China became the world’s fastest growing major economy, but the rate of economic growth is not the most novel feature of China’s new economic direction. More impressive is that recent growth is a response to a decentralising tendency of Chinese economic policy, and as a result growth has produced an unprecedented diversification of economic activity. All provinces have benefited from the new policies, but they have thereby become less uniform. In conjunction with increasingly permissive policies concerning international economic activity and different degrees and directions of access to foreign markets on the part of provinces, the diversification of provincial involvement in international trade and in provincial patterns of trade is particularly marked.

Diversification and internationalisation are both widely viewed as desirable policy outcomes, and they are clearly related to a vast increase in China’s material wealth. Permission to diversify has been a cornerstone of Deng Xiaoping’s modernisation programme. At the household level the blessing was given for some to get rich first, and in the area of provincial trade the natural advantages of a place like Guangdong have been enhanced by preferential treatment by the centre. Although the avant garde behaviour of Shenzhen Special Economic Zone has been an occasional bone of contention between conservatives and pragmatists since the early 1980s, in general the progress of advanced areas has been viewed as forging a path for the rest of the country. It could be argued that the progress produced by diversification and internationalisation has been an important contributing factor to the stability of the Chinese regime.
even if the emerging civil society that they have encouraged also contributed to the ferment and eventual tragedy of Tiananmen.\textsuperscript{2}

It is also clear, however, that the horn of plenty has some of the characteristics of Pandora's box. Growth has occurred with the permission of the centre, but not under its close supervision, and the direction of growth has been centrifugal. The centre could not regain the control it had just a decade ago without severe economic consequences; indeed, some worry that the centre is in danger of losing its general regulative capacity, and that the centrifugal effects of diversification might lead to national disorder.\textsuperscript{3} Such concerns are heightened by the example of the Soviet Union. High rates of change and novel directions of growth inevitably raise questions about deeper consequences. In any case, even committed modernisers like Zhu Rongji have been forced to take strong regulatory action at the centre in order to slow the dizzying pace of growth and to control inflation.

By its nature diversity is hard to describe, and the big question of 'where is all this heading?' is too vast to be dealt with comprehensively. This article concentrates on one facet of these developments, namely, differences in the pattern and magnitude of international exports of China's provinces. The facet is an important one for three reasons. First, provinces are a traditional, stable and powerful level of government in China. Diversification at the provincial level is not only a natural first level of disaggregation, it is also one at which political articulation is possible. At the provincial level the contrast between real provincial discretion and political clout on the one hand and on the other their vulnerability to central interference might give rise to federalistic demands. In turn, diversification also poses internal problems for provincial governments in so far as they face rising demands from localities and citizens. Second, international trade is a major area of provincial diversity and one related to provincial wealth. The dimensions will be described below, but it is abundantly clear to foreign visitors that officials in every province consider foreign trade and investment as vital to modernisation. The third reason is fortunately more hypothetical: namely, if disunity develops in China, provincial differences based on disparities in international relations would undoubtedly play a role in the discord.

The first and most important task of this study is to produce a preliminary overview of the scale and diversity of the foreign trade relations of the various provinces. Because of the complexity of dealing with 30 different units in potential relationship with 160 countries, some basic limits of data have been adopted. The primary data base of this research is the 1990 provincial export data reported in the Zhongguo Duowai Jingji Maoyi Nianjian 1991 (Almanac of Chinese Foreign Economy and Trade 1991, hereafter China Trade Almanac 1991). The data collected concerns volume of exports, volume of exports to the top five destinations for each province, and rankings of destinations in terms of volume. The data is rather complete, with only two provinces (Sichuan and Tibet) lacking information on specific export destinations. Export data is used rather than import data because it is assumed to be more accurate for asserting a specific link between each province and a country of final destination.\textsuperscript{4} However, the data does not report indirect trade, nor does it report unofficial trade, and these are serious limitations. Virtually all trade with Taiwan is reported as trade with Hong Kong, and a significant amount of Hong Kong trade is bound for other markets as well, including the United States. Unofficial trade is also a serious problem. For instance, Guangxi Province does not report trade with Vietnam in 1990, and yet unofficial Chinese estimates would place Vietnam second only to Hong Kong as a target for Guangxi exports. There was presumably an even greater volume of direct unofficial trade in 1990 between Fujian and Taiwan, and between Shandong and South Korea. In general, border trade is probably under-reported. Trend analysis is confined to the national level in this study because only recent provincial-level data on trade partners is available, and in any case the complexity of thirty-unit trends would be enormous.

The basic purpose of this research is to convey an overall sense of provincial diversification and its political implications, because the phenomenon is important and complex enough to require a general recasting of our image of China's political economy. A number of graphic techniques are used to facilitate a re-imagining of China's diversity of international relations in the 1990s, and the historical development of China's trade policy is presented in order to explain the context and novelty of current policies. The questions addressed are the following: How does provincial diversification and internationalisation fit in with China's national political dynamics? What is the general scope and pattern of export diversification? What are the specific characteristics of coastal, inland and border provinces, and of their major partners? What are the political implications of provincial diversification?

The first section describes the development of national trade policy from 1949. It emphasises that the increase of Chinese trade in the 1980s occurred in a context of radically new policies that promoted
economic differences among provinces. On the one hand, the general policies promoting market decentralisation and local initiative encouraged a new kind of localism, which we term market localism, to replace the traditional autarkic localism. On the other hand, the specific policies of internationalisation encouraged the inherent differences among provinces to unfold. First, overseas Chinese connections were encouraged, and then places with existing external advantages such as Guangdong and Fujian, and later the coastal provinces, were given special privileges. Even policies promoting more general economic internationalisation, such as those relating to foreign investment, in fact benefited the more developed trading centres more than the inland areas. Lastly, the vast improvement in China’s relations with its neighbours in the 1980s has created very specific and localised trading opportunities for its border provinces.

The second section presents the diversity of provincial trading patterns. The patterns analysed include the relationship of provincial exports to provincial economic activity (which indicates how the significance of international openness differs among provinces), the five major export partners of each province (which details the specific trading ‘world’ of each province), and the index of trade dependence (which measures the concentration of trade with one or a few partners). The data are presented in tabular form, but, because the implications and geographical patterns are hard to grasp from columns of numbers, an attempt has been made to display the data in figures that convey an immediate, clear and accurate image of disparities. We then analyse three general categories of provinces: coastal, border and inland. Coastal provinces have what we term grand advantages of global access, which put them at the forefront of internationalisation and also make their trading patterns similar to national trading patterns. Border provinces have the petty advantage of convenient access to a specific neighbour. If the neighbour is Hong Kong, then the advantage is enormous; if it is Nepal, the advantage is less impressive. In any case, however, the trade of a border province is distorted toward its neighbours, and therefore its trading pattern differs considerably from the national pattern.

The third section on provincial trade dependence goes into more detail concerning the concentration of trade and the trading patterns of China’s major trading partners. It is clear that provinces with both border and coastal characteristics (Guangdong is the outstanding example) have the highest volume of trade and also the highest trade dependence. Coastal provinces have high volumes of trade but low rates of dependence. Border provinces have unique trade orientations and are variable in amount of trade and dependence. Trade is relatively insignificant for inland provinces and in general they have low dependence. Looking at this pattern from the point of view of major trading partners, Hong Kong is one of the top five export targets for all provinces and is number one for twenty-three provinces. But its trade is spread unevenly, with the highest concentration in Guangdong and other southern provinces. Trade with Japan has a northern bias, though it is also well distributed. Trade with the United States and Europe fits the national trading pattern by being strongest on the coast. Other countries that are among the top five trading partners of one or more provinces tend to be concentrated in the border areas, because they are the exceptions to the national trading pattern.

The final section speculates on the political implications of provincial economic diversification. First, it is clear that the coastal provinces will be vitally interested in national trade policies. In general they would favour internationalisation, but it should be remembered that their economies are also the ones most exposed to external uncertainties. Border provinces would tend to be more focused in their international interests, and their interest in relations with a neighbour might well diverge from national policy. They are exposed to border difficulties as well as to trading opportunities. Inland provinces have less to gain from internationalisation, but they want the advantages enjoyed by provinces with better access. Secondly, all provinces have some characteristics in common, in that each will be pursuing its own advantages in interprovincial arenas but at home they will be managing similar conflicts based on market localism between localities and groups. Thirdly, all provinces have strong reasons to support the centre, and even stronger reasons not to confront and challenge the centre. Even though China is becoming more diverse domestically and in its international connections, we conclude that China is not about to fly apart.

NATION AND PROVINCE IN INTERNATIONAL TRADE

National trading patterns before 1980

As the controversial Chinese television documentary River Elegy (He shang) suggested, China has not been an ocean-oriented, international commercial culture, even though traditional domestic commerce was well-developed. The chaos of the first fifty years of this century in China did open the country to international contacts, but they were
not of China’s choosing and they were premised on conditions of vulnerability and backwardness. China was unevenly exposed to the advantages and disadvantages of international commercial contact, creating a broad contrast between coastal and hinterland areas. But even the most exposed areas were not modern, and the pattern of trade was dominated by the import of finished and luxury goods and the export of raw materials. Until 1890 opium was the primary import, and for most of the pre-1949 period the value of tobacco imports exceeded that of machinery imports. China ran a chronic export deficit in its balance of trade, counterbalanced by remittances from overseas Chinese. In general, neither trade (amounting to 7 per cent of Gross Domestic Product in 1933) nor foreign investment transformed the Chinese economy; they led instead to a partial and uneven development. Of course, considering the colonial transformation of other underdeveloped economies during this period, partial exposure had some advantages. New forms of opportunity went hand in hand with vulnerability in the non-Western world before 1949, a situation best illustrated in China by Japan’s interest in Manchuria and later its occupation of the most developed areas of China in 1937–45.

Figure 5.1 illustrates the overall pattern of Chinese trade from 1949 to 1990. In terms of the total value of trade, the pattern is one of stagnation until the early 1970s, at which point the first of four sharp, multi-year increases occurred. The upper line charts trade as a percentage of Gross Social Product (GSP; shehui zong chan zhi; also translated as ‘total output value’), and it makes clear that the general economic significance of trade declined in the 1960s, and returned to its earlier level only with the first rise in the early 1970s. The increasingly sharp rises in trade in the 1980s doubled its economic significance by the end of the decade.

The initial effect of the establishment of the People’s Republic of China in 1949 was to sever the existing ties to the West, and to develop a new relationship with the Soviet Union based on state-to-state cooperation for development rather than on commercial, market-based trade. The scale of technological and trade dependence on the Soviet Union assumed in the Sino-Soviet Treaty of Friendship, Alliance and Mutual Assistance (signed on 14 February 1950) exceeded any previous bilateral dependence, and it might seem strange that a newly independent country, proud of having finally ‘stood up’ in the world, would assume such an apparently clientelistic posture.

Four factors modified dependence, two practical and two ideological. First, given the hostility of the West, and especially of the United States, the Soviet Union was the only available major country with which China could pursue a modern economic relationship. Secondly, the economic aid provided by the Soviet Union concentrated on the establishment of a modern industrial base in China. In contrast to the previous period, it was not driven by Soviet commercial advantage, nor was it based on unequal treaties forced on the
Chinese. As plausible as the two practical factors might seem, in my opinion the following two ideological factors were more decisive. First, it was natural for China to learn from and be assisted by the Soviet Union because it was just embarking on the socialist road, while the Soviet Union was experienced and successful. China's rural revolutionary experience did not prepare it to build a national, urban-centred economy, and so it was a natural apprentice. Secondly, as Lowell Dittmer has argued, China's sense of its place in the world had to be recreated in 1949. Republican China and its allies were rejected, the old attitudes of the Chinese Empire were even less acceptable, and revolutionary success encouraged China to inject ideological optimism into finding a new world posture. The socialist camp provided a structured international peer group, and China became an enthusiastic member.\textsuperscript{7} By 1957, however, China's achievement of transition to socialism and also its concerns about the socialist camp began an alienation from both the Soviet model and Soviet leadership.

Figure 5.2 describes the shift in China's trading partners from the Soviet-dominated pattern of the 1950s to the more diverse situation in later decades. Hong Kong is the most consistent trading partner, as it was in the first half of the twentieth century, though direct trade with Taiwan and South Korea in the 1990s will undoubtedly reduce its apparent trade share. Japan's trade share in the 1970s and 1980s is in the ballpark of its trade share in the 1920s and early 1930s, while the European share is less than it was in the interwar period. The American trade share of the 1980s is approaching earlier levels. Missing from the graph is the composition of non-major trading partners, which has shifted from Eastern Europe in the 1950s and 1960s to Asian countries in the 1970s and 1980s. If we combine the Soviet and Eastern European trade shares, the communist block share is 62 per cent in the 1950s, 21 per cent in the 1960s, 9 per cent in the 1970s and 3 per cent in the 1980s. The larger pie of the 1980s shows that while trade now has greater proportional significance, the distribution of trade has not returned to the lopsided distribution of the 1950s at the national level.

Even before the Soviet Union abruptly withdrew its assistance to China in July 1960, the Great Leap Forward provided an introverted model of modernisation in which the key resource was political mobilisation rather than importable inputs. The failure of the Great Leap Forward and the souring of relations with the Soviet Union led to a certain diversification of trade in the early 1960s, but primarily to meet pressing needs such as the shortage of grain. So, as the figures
illustrate, the significance of trade for China’s modernisation plans actually declined in the 1960s. Moreover, even internal commerce declined after 1957 as the economy became exclusively state-owned and administered. A wave of trade expansion involving further diversification of partners and products occurred in the early and mid-1970s. This included important capital goods like chemical fertiliser plants, but the increase in trade activity merely returned foreign economic relations to the role in modernisation that they had enjoyed in the 1950s. Hua Guofeng’s grandiose but short-lived development plans of 1977–78 were a more fleshed-out hybrid of Western inputs into state-planned central projects. These plans were similar to the role of Soviet aid in Chinese modernisation in the 1950s as well as to the attempts of various Eastern European countries in the 1970s, especially Poland, to jump-start modernisation by importing technological inputs from the West. Although Hua’s plans began the growth in foreign trade that continued in the 1980s, the international economic policy that began to develop after 1979 was clearly different in concept.

The species of trade throughout the 1949–79 period was one of imports being directed by central perceptions of domestic shortfalls or modernisation needs, and of exports being arranged to cover the cost of imports. Even after the replacement of the Stalinist modernisation model by a Maoist one, the derivative, centrally-controlled and non-market character of foreign trade retained the generic Stalinist pattern. International trade was a firm monopoly of the centre, and not necessarily an advantage to the localities producing for export. Typically, the price paid to the producer was the domestic price, and any profit made on the international sale went to the state trading company. Even the state trading company was not necessarily trying to make a profit, since it was seeking to cover a specific trade deficit rather than to find as high a price as the market would bear. China’s aversion to foreign debt might have encouraged exports to balance imports, but it probably also depressed the general level of trade. In any case, foreign commerce is peripheral and alien in a command economy and the tendency is to isolate its contact and influence. International trade was the small tail of a large dog, and exports were the tip of the tail.

Table 5.1 provides two general indicators of trade dependence: trade as percentage of Gross Social Product; and the Hirschman Index of trade dependence, an index of the skew of trade toward one or a few partners. The ratio of trade to general economic output is used as an indicator of the general openness of an economy, and the higher the trade ratio the more the economy would be influenced by its trade performance. The first row shows the doubling of the trade ratio in the 1980s, and the corresponding increase in the potential influence of trade on the Chinese economy.

But the growing importance of trade does not by itself indicate a vulnerability to the trade policy of any particular country. If trade is evenly distributed among many partners, then general market conditions determine success or failure rather than the behaviour of any one partner. However, the more trade is concentrated with one or a few partners, the more trade is exposed to the decision making of dominant partners. The Hirschman Dependence Index is a measure of concentration of trade. If trade is exclusively with one country the Hirschman Index would be one hundred, if trade is spread evenly it approaches zero. The formula is: Index = √(a11 + a22 + a33 + p) where the a’s are percentages of trade of major partners and p is the residual. The table documents the high level of trade dependence on the Soviet Union in the 1950s, and makes clear that, despite the greater significance of trade in the 1980s, the relationship is less concentrated. Considering that Hong Kong is the major trade partner in the late 1980s, the index would be reduced considerably with direct trade between China and Taiwan.

The concept of trade dependence is an important one in this paper, but clearly not in the sense of ‘dependency’ as it became popular in the 1970s. We can make use of James Caporaso’s distinction between ‘dependency’ as external reliance on other actors, and ‘dependency’ as incorporation of less developed countries into the capitalist system and the structural distortions resulting therefrom. As the preceding analysis suggests, China’s economic structure before 1980 was the opposite of that implied by dependency (and indeed Caporaso refers to China and Albania as models of its opposite, namely, autarkic independence). The concept of trade dependence dates back to concerns about Germany’s trade policies.
in Eastern Europe in the interwar period, and A.O. Hirschman's 1945 work *National Power and the Structure of Foreign Trade*, the source of the index, is the classic study. The index measures the degree of focus in the economy's exposure to trade partners, and since this varies over time in China and, as we shall see, by province, it is a useful analytic tool. A high score is intrinsically neither better nor worse than a low score, but a high score does imply that one or a few trade relationships are very important. At the national level, the present and foreseeable patterns of trade indicate a low and decreasing index of dependence. At the provincial level the situation is quite different, but the differences did not matter until not only the volume but more importantly the structure of foreign trade was transformed in the 1980s.

Clearly provincial trading patterns were not significant in the Stalinist economic framework. The level of foreign trade was low, its salience for local development was negligible, and production for foreign trade was indirect and assigned by the state. Indeed, places relying on comparative advantage experienced relative decline, especially in the 1960s and 1970s. Given that there was no advantage to the producer to produce for export, it could be permitted and encouraged only by the central government's administrative decisions. Even though these decisions did not spread the obligation to produce for export evenly throughout China, the differentiation that occurred was at the behest of the command economy. Centrally-controlled trade was therefore less desirable to the localities and more transparent to the authorities than the market-oriented trade that sprang up in the 1980s.

The transformation of Chinese trade in the 1980s

Foreign trade not only grew along with the expansion of the economy in the 1980s, it was especially benefited by some of the general principles underlying Deng's reforms. Moreover, and central to our concerns here, the transformation in the approach to modernisation unleashed the economic initiative of lower levels of government. If the government had encouraged trade but had not changed its approach to modernisation, much of the diversification described in this paper would not have occurred. Therefore, in addition to the national trade patterns discussed above, the political environment of foreign trade policy must be considered. Three of these new principles of modernisation deserve special attention, namely, the shift from autarkic decentralisation to market decentralisation, the permitting of private and local economic initiatives, and the encouragement to internationalise.

From autarkic to market decentralisation

Decentralisation was an important aspect of the Maoist approach to development, and it would a mistake to view the 1980s reforms as simply a transition from a centralised Stalinist command economy to a decentralised market. Not only did China lack the material pre-requisites of a fully centralised command economy, but already in the mid-1950s Mao had begun questioning the wisdom of a centre-oriented development strategy. Decentralising measures were an important part not only of the leftist economic interventions such as the Great Leap Forward or the Learn from Dazhai campaigns, but also of the more pragmatic policy phases that followed leftist failures.

Under Mao, decentralisation meant autarkic self-sufficiency. Clearly an environment of shortage in basic goods invites such an approach; self-sufficiency is the most complete form of economic security. But Mao made this middle-peasant ideal into a cornerstone of modernisation strategy. Every industrial enterprise should be 'small but complete'; every county should develop its own manufacturing capacity for agricultural tools, every province should 'take grain as the key link'. The resulting political economy has been well described as cellular or honeycomb, since horizontal linkages are minimised and even vertical linkages are reduced. The approach encouraged localism, but not necessarily diversity, and certainly not commercial diversity.

Under Deng Xiaoping and Zhao Ziyang decentralisation quietly transformed its meaning, becoming market decentralisation in which each area and unit produces to best advantage within an interdependent market network. By the 1980s the commercialisation of agriculture (percentage of output marketed rather than consumed) became an official measure of modernity. The media now praised fruit-tree and fish-pond millionaires, while earlier they had praised Mongolian communes who with great hardship (and cost to their sheep production) had become self-sufficient in grain. What came to be called socialist commodity production implied an abandonment of the peasant ideal of guaranteed self-sufficiency. It permitted producers to respond to market opportunities not only by investing their surplus, but by reorienting their entire productive capacity, becoming at the same time more profitable and more dependent on the market. Tea villages and button towns reappeared.
The new decentralisation of the 1980s has encouraged a new variety of localism, one with profound implications for Chinese politics. The autarkic localism of cellular decentralisation was primarily concerned with shielding itself from central interference and oversight in order to survive and to pursue relatively modest private opportunities. Market localism has the potential to be more assertive and to be more ambitious in its pursuit of its own interests. Autarkic localism is merely defensive against intrusion, while the interdependence of the market inevitably involves localities in conflicts among themselves of both interests and ambitions. The suppliers of raw materials want to develop their own processing industries; the manufacturing centres want to secure their supplies and markets; the points of transit want to maximise their entrepot advantages. Moreover, the uncertainties and inconveniences created by inadequately controlled market localism give rise in turn to pressures for new dimensions of centralisation, or at least corporatism, in order to secure an orderly national market. Just as economic development has spread unevenly, so market localism makes different demands in different localities: sometimes for market expansion, sometimes for protectionist policies, sometimes for central support. Some of the political symptoms and consequences of market localism will be discussed in the third part of this chapter.

***Increased private and local initiative***

In theory, China could have pursued commodity modernisation through a more sophisticated central administrative structure, and indeed the central ministries grew and became more sophisticated in their controls in the 1980s. The various attempts at reforming the socialist economic mechanism in European communist countries, from Lieberman and Kosygin in the 1960s and the more ambitious Hungarian policies through Gorbachev's *perestroika*, had such projects. But China historically was less concerned about maintaining central administrative control in new campaigns, and in any case the mechanisms of central administrative control of the domestic economy were less developed.\(^{13}\)

The encouragement of local initiative in the 1980s involved more than greater slippage in a socialist system, however. The ideological commitment to the elimination of differences between town and country and between mental and manual labour was condemned as ultra-egalitarianism, and everyone was encouraged to pursue individual profit and thereby to advance the common good. The general decriminalisation of material interest was even more important than the numerous new policies permitting local initiative, because it encouraged individuals and units to push at the edge of the permissible. As Ren Zhongyi, First Party Secretary of Guangdong Province in the early 1980s, put it: 'If something is not explicitly prohibited, then move ahead. If something is allowed, then use it to the hilt.'\(^{14}\)

The quick success and popularity of rural decollectivisation in 1979–82 further encouraged looser reins at all levels of the economy, and different patterns of resources, opportunity and success led to increasing differentiation. The diversification related to foreign trade discussed in this chapter could only occur within the general diversification of society and economy. Otherwise, even if foreign trade had been considered essential to modernisation, its interface with the domestic economy would necessarily have remained under central administration and control. The policies that license and encourage local initiative in foreign trade derive from the general policy context of acknowledging material interest and encouraging initiative; they are unimaginable outside of that context. Foreign trade has merely added another dimension to a general pattern of diversification resulting from local and individual initiative.

***International openness***

Bold attempts to involve overseas Chinese, capitalist countries, firms and international economic organisations in China’s modernization have been a vital part of Deng’s reforms from the beginning. Clearly this has been the policy change that has most affected the scale of foreign trade in the 1980s and also its differentiated impact. Foreign trade increased its share of the national GNP from 6 per cent in 1978 to 10 per cent in 1990.\(^{15}\) The tendency of foreign trade to diversify according to the natural advantages and access of different localities has been exaggerated by a policy pattern exemplified by the creation of the Special Economic Zones (SEZs) in 1980 and the permissions given to Guangdong and Fujian in 1979 to control some levels of foreign trade and to retain income from trade. These are policies that give special advantages of openness to regions and areas that already have better international access in order to encourage even more rapid development. Nevertheless, there have also been general encouragements to foreign trade in conjunction with China’s efforts to work with the World Bank and to join the General Agreement on Tariffs and Trade (GATT). Lastly, toward the end of the 1980s border trade
has been encouraged between inland provinces and neighbouring countries. Thus four elements of the general policy of international openness may be distinguished: first, openness toward ethnic Chinese; second, special policies toward areas with a trade advantage; third, general efforts to increase access to the world economy and to world economic organisations; and fourth, efforts to expand border trade.

Even before Deng Xiaoping took control in late 1978, policies toward overseas Chinese (primarily targeted at the Nanyang Chinese in Southeast Asia), Hong Kong and Taiwan were becoming more hospitable, and patriotic investment in the ancestral country was encouraged. In 1977 China adopted a more aggressive policy toward promoting the rights of overseas Chinese, reversing a pattern of neglect that had formed in the wake of the Indonesian troubles of 1965. It was intended to encourage a feeling of ethnic community and also investment in China. As luck would have it, the policy was announced just before Vietnam expropriated and expelled a large part of its ethnic Chinese population, and it contributed to the hostile confrontation between the two countries. Restrictions on travel and gifts between Hong Kong and Guangdong were also eased, setting the stage for the special relationship between Hong Kong and Guangdong in the 1980s. Improvement of relations with Taiwan developed more slowly, but the policy of peaceful reunification suggested by the New Year’s Message to Taiwan Compatriots in 1979 and developed into a nine-point programme by Ye Jianying in 1981 tended to remove Chinese barriers to indirect trade and investment from Taiwan, thereby increasing the pressure on Taiwan either to bear an increasing cost of enforcement or to moderate its policies. Since Taiwan first relaxed its enforcement of controls of indirect contact and trade, then its policies on indirect trade, and only at the end of the 1980s began to modify controls on direct contact, Hong Kong has been a major conduit and beneficiary of Taiwanese interest in the mainland.

The opening to ‘greater China’ was not only the first component of international openness, it still plays a central role in external trade and investment, as indicated by Hong Kong’s trade share in the 1980s. Indeed, although Hong Kong’s trade share will undoubtedly diminish as Taiwan begins direct trade, the share of ethnic Chinese may well increase in the 1990s. Since such trade is grounded in kinship ties, its local impact in China is unevenly distributed. The export trade share of Hong Kong ranges from 8 per cent in Liaoning to 82 per cent in Guangdong. It might be speculated that, given the ethnic and locational specificity of ethnic contacts, such trade and investment would tend to intensify in given locations rather than distribute itself more evenly in pursuit of further locational advantages.

The second aspect of international openness, special treatment to advantaged areas, is closely related to the first. Just as the overseas Chinese were a special part of the international market (and had been so throughout the twentieth century), their places of origin, especially Guangdong and Fujian, were singled out for permissive treatment. Special treatment of Guangdong began in 1979, symbolised by the creation of the SEZs in Shenzhen, Zhuhai, Shantou and Xiamen in 1980. However, unlike the involvement of the overseas Chinese, the permissive policies did have a tendency to spread when they had proven themselves successful. In 1987 special permissiveness was extended to all coastal provinces and since 1989 Shanghai’s Pudong development has been the largest focal point of government encouragement. Meanwhile, the rest of the country is attempting to move through the door opened by Guangdong. For example, Hebei Province has announced the establishment of four major economic zones, and it is estimated that there are more than two thousand special zones of various sorts, most at the township level, taking more than 2.4 million hectares out of agricultural production. As permissiveness broadened, it also deepened, allowing rural cooperative enterprises to become involved directly in international trade. In sum, the overall pattern of the spread of permissive policies from advantaged areas has contributed to the rapid growth of these areas, but it has also tended to exacerbate the different rates of development between internationally advantaged and disadvantaged areas. However, permissive policies have tended to expand, so privileges granted to the advanced can be viewed by the envious remainder as the thin edge of a wedge of more general policy reform.

A third frontier of international openness that has directly affected national trade policy was China’s responsiveness to the expectations and demands of international economic organisations and of major trading partners. Integration into the world economy has required the development of legal structures and statistics, encouraged movement toward currency convertibility, and has reintroduced large-scale, foreign-funded projects into China for the first time since the 1950s. From the formulation of China’s first Joint Venture Law in July 1979 to the decisions in 1992 to publish all tariff rates, rules and regulations, the attempt to involve global investors, traders and economic institutions in modernisation has been a potent force in regularising access and information concerning China’s external and internal economic activities. Pressures for global integration have
increased general access to foreign markets, as well as foreign access to China, and these pressures continue with China’s attempt to enter GATT. Such global openness has uneven effects on foreign and domestic participants because it treats equally those with unequal endowments, but it is an improvement over the previous two categories of openness because it does not give special treatment to the already advantaged.

The last and most neglected aspect of international openness has been the improvement of relations between China and its neighbours and the great increase in overland border trade. In 1978, China had strained or hostile relations along much of its border. The Soviet Union, Mongolia, Afghanistan, India, Burma, Laos, Vietnam – all were sufficiently alienated that mutual trade was minimised. By contrast, relations with every neighbouring country (including some new countries, in the case of the Soviet Union) have improved in the late 1980s, and trade is playing an increasingly important role in the relationship. Moreover, with the relaxation of central control, border provinces are eager to promote trade and cross-border cooperation since it provides an international outlet to these provinces, which are generally inland areas without direct access to a global market. Unfortunately for the purposes of this chapter, border trade is often informal and not well controlled or reported. For instance, in 1990 Guangxi’s trade with Vietnam was estimated to be $150 million, making Vietnam Guangxi’s major trading partner after Hong Kong, but in national and provincial statistics for that year no trade between the two is reported. Even without the diplomatic problems that existed between Vietnam and China, border trade will tend to be underreported because of the ease of smuggling. Despite such problems the provincial data presented below allow a distinction between inland, neighbouring and coastal trading patterns. Border trade with a neighbouring country is a rather restricted advantage compared to the grand advantage of coastal access to world markets, and one task of this chapter will be to differentiate between what we will call petty and grand advantages in international trade.

The general argument of this section has been that not only has the volume of international trade expanded enormously and its role in national development has been enhanced, but, more importantly for our purposes, the role of the provinces has been transformed by the new policy context of modernisation. The emphasis on commodity trade has allowed market specialisation at every level, replacing the Maoist ideal of self-sufficiency. The new permissiveness toward material incentives has produced a benign attitude toward local initiatives and has encouraged trade by allowing profit retention. Lastly, the four dimensions of international openness – namely, encouragement of overseas Chinese connections; special permissiveness to regions with special endowments; openness to global markets and economic institutions; and border trade – have both encouraged a rapid growth in local involvement in foreign trade and have insured that the impact of trade would differ widely between provinces. In a word, China moved from a policy minimising a relatively uniform and centrally controlled foreign trade to one that encouraged diverse agents to pursue trade according to their endowments. The results of this policy of diversification are the subject of the next section.

THE DIVERSITY OF PROVINCIAL TRADING PATTERNS

It is inevitable that Chinese provinces enjoy a high degree of practical autonomy despite the unitary structure of the national party-state. In most cases they are ancient political units, they administer populations that average 35 million and range above 100 million, and their personnel is fairly stable. As a result, even though the factors influencing trade diversification discussed above affect China down to the village level, the provincial level is a prominent and significant unit of analysis.

In the 1980s, the practical autonomy of the provinces combined with the different advantages of each province to produce significant diversification in many aspects of development, including foreign exports. As a result, the context of provincial autonomy has changed. Vis-à-vis the centre, each province presents a more individualized set of resources and problems than in the past, and each has a greater stake in further central permissiveness, at least in those policy areas that have favoured or might favour that particular province. It is clear that provinces now have more clout against the centre than they did ten years ago, and it can be anticipated that this clout will increase in the event of succession crises in Beijing. Vis-à-vis one another, the interests of the provinces are more divergent, more interdependent, and therefore more likely to conflict, as the concept of market localism discussed above would suggest.

The purpose of this section is to describe provincial diversity of export patterns in order to sketch the range of provincial differences on this important dimension. We will first present the general data, and then discuss their patterns and implications.

Table 5.2 contains the basic provincial export data upon which
Table 5.2 Provincial trading partners 1990 ($ million)

<table>
<thead>
<tr>
<th>Province</th>
<th>% in na</th>
<th>% in GSP</th>
<th>USA</th>
<th>Hong Kong</th>
<th>Japan</th>
<th>W. Germ</th>
<th>Singapore</th>
<th>USSR</th>
<th>N. Korea</th>
<th>EEC</th>
<th>Burma</th>
<th>Saudi Arabia</th>
<th>Sri Lanka</th>
<th>Thailand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>2.75</td>
<td>6.51</td>
<td>164.28</td>
<td>289.06</td>
<td>185.12</td>
<td>82.36</td>
<td></td>
<td>44.24</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Tianjin</td>
<td>3.72</td>
<td>10.31</td>
<td>227.46</td>
<td>351.63</td>
<td>244.93</td>
<td>101.23</td>
<td></td>
<td>62.55</td>
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<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Hebei</td>
<td>3.62</td>
<td>5.26</td>
<td>120.00</td>
<td>341.00</td>
<td>701.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shanxi</td>
<td>0.95</td>
<td>2.99</td>
<td>22.55</td>
<td>147.74</td>
<td>136.74</td>
<td>19.50</td>
<td></td>
<td>14.81</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Inner-Mongolia</td>
<td>0.68</td>
<td>3.24</td>
<td>12.74</td>
<td>52.34</td>
<td>59.41</td>
<td></td>
<td></td>
<td>98.53</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Liaoning</td>
<td>11.66</td>
<td>12.53</td>
<td>1,052.00</td>
<td>471.00</td>
<td>2,255.00</td>
<td>499.00</td>
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<td></td>
</tr>
<tr>
<td>Jilin</td>
<td>1.57</td>
<td>4.49</td>
<td>19.74</td>
<td>215.23</td>
<td>180.64</td>
<td>21.06</td>
<td></td>
<td>160.86</td>
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</tr>
<tr>
<td>Heilongjiang</td>
<td>2.26</td>
<td>4.24</td>
<td>175.09</td>
<td>172.09</td>
<td></td>
<td></td>
<td></td>
<td>358.95</td>
<td>76.30</td>
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<tr>
<td>Shanghai</td>
<td>11.07</td>
<td>13.48</td>
<td>745.33</td>
<td>1,029.61</td>
<td>759.08</td>
<td>229.76</td>
<td>182.11</td>
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<tr>
<td>Jiangsu</td>
<td>6.14</td>
<td>4.07</td>
<td>385.44</td>
<td>653.63</td>
<td>587.91</td>
<td></td>
<td></td>
<td>110.74</td>
<td>463.12</td>
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<tr>
<td>Zhejiang</td>
<td>4.70</td>
<td>5.57</td>
<td>226.63</td>
<td>659.83</td>
<td>345.19</td>
<td>137.20</td>
<td></td>
<td>94.94</td>
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<tr>
<td>Anhui</td>
<td>1.36</td>
<td>2.74</td>
<td>51.00</td>
<td>177.00</td>
<td>115.00</td>
<td></td>
<td></td>
<td>94.00</td>
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<tr>
<td>Fujian</td>
<td>4.66</td>
<td>12.57</td>
<td>268.00</td>
<td>1,057.00</td>
<td>286.00</td>
<td>105.00</td>
<td>56.00</td>
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<tr>
<td>Jiangxi</td>
<td>1.17</td>
<td>3.65</td>
<td>208.86</td>
<td>52.50</td>
<td>30.34</td>
<td>27.24</td>
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<tr>
<td>Shandong</td>
<td>7.28</td>
<td>5.81</td>
<td>260.00</td>
<td>590.00</td>
<td>920.00</td>
<td></td>
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<td>207.00</td>
<td>400.00</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Henan</td>
<td>1.81</td>
<td>2.44</td>
<td>49.46</td>
<td>305.37</td>
<td>96.30</td>
<td></td>
<td></td>
<td>77.68</td>
<td>107.49</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Hubei      | 2.23    | 3.38     | 61.18  | 478.20    | 92.56  | 34.14   |           | 83.83|          |     |       |              |           |          |
Hunan      | 1.68    | 3.12     | 71.55  | 558.03    | 68.47  | 36.69   |           | 38.77|          |     |       |              |           |          |
Guangdong  | 21.99   | 18.32    | 403.00 | 8,709.00  | 288.00 |         |           | 140.00|          |     |       |              |           |          |
Guangxi    | 1.52    | 5.32     | 61.20  | 382.41    | 55.33  | 24.35   |           | 41.48|          |     |       |              |           |          |
Hainan     | 0.98    | 15.78    | 351.80 | 32.50     | 9.90   |         |           | 8.35 | 6.80     |     |       |              |           |          |
Sichuan    | 2.32    | 2.62     |       |           |       |         |           |      |          |     |       |              |           |          |
Guizhou    | 0.32    | 1.79     | 18.94  | 43.35     | 32.09  | 8.98    |           | 142.73|          |     |       |              |           |          |
Yunnan     | 1.17    | 4.84     | 22.12  | 96.28     | 68.45  |         |           | 19.12|          |     |       |              |           |          |
Tibet      | 0.03    | 2.07     |       |           |       |         |           |      |          |     |       |              |           |          |
Shanxi     | 0.96    | 3.24     | 27.39  | 140.12    | 68.92  | 13.05   |           | 11.13|          |     |       |              |           |          |
Gansu      | 0.39    | 1.95     | 14.12  | 54.82     | 38.31  |         |           | 29.09|          |     |       |              |           |          |
Qinghai    | 0.14    | 3.16     | 9.01   | 34.48     | 3.84   |         |           | 6.46 |          |     |       |              |           |          |
Ningxia    | 0.16    | 3.43     | 25.66  | 8.74      |       |         |           | 4.24 |          |     |       |              |           |          |
Xinjiang   | 0.70    | 4.07     | 13.14  | 57.68     | 106.05 | 13.34   |           | 72.81|          |     |       |              |           |          |

Note: The data for this table are mainly from two sources. The provincial GSP is excerpted from the Chinese Statistics Yearbook 1991. The original data are in Renminbi. They are converted into US dollars using the exchange rate of 1990. The rest of the data are expected from the Almanac of Chinese Foreign Economy and Trade 1991. West Germany is listed separately because it is one of the largest trading partners. Other West European countries are listed under the heading EEC. * stands for export to Great Britain. The export partners data are missing for Sichuan and Tibet.
much of the analysis of this chapter is based. The first data column, percentage of national exports, gives the share of each province in national exports, and directly reflects differences in trade volume. The second data column, exports as a percentage of provincial GSP, indicates the significance of each province’s export activity as a percentage of its general economic activity. The country columns indicate amount of exports of each province with their top five trading partners. The provinces differ in their reporting of European trade, some reporting countries separately and some simply as the European Community. For most purposes the data is combined in our statistics. It is important to remember that the data here can be expected to under-report border trade, especially with Vietnam, and that trade with Hong Kong includes trade with Taiwan, South Korea and many other end destinations. It should also be noted that the trade statistics used here do not include the full value of goods involved in export processing, but only the value added in the processing. This method understates Guangdong’s gross imports and exports. The aggregate provincial trade for 1990 is $48.01 billion, while the reported national figure in $52.07 billion. The difference appears to consist of direct trade by national ministries.

The data of Table 5.2 and of Table 5.3 below are perhaps more accessible in their general import in Figures 5.3 and 5.4. Figure 5.3 gives a rough idea of the national significance of the exports of various provinces, as well as the shares of the major national trading partners in the trade of each province. Figure 5.4 give a picture of the relative importance of trade to the economies of each province by setting the size of the pie according to the ratio of exports to provincial production (GSP). The shares of major national trading partners in Figure 5.4 have been adjusted to account for the large amount of indirect trade passing through Hong Kong. Unfortunately it is impossible to make an accurate adjustment because no data are available that would break down Hong Kong’s indirect trade by province of origin. So we have taken Hong Kong’s overall amounts of re-exports, excluding re-exports to China, and have added Hong Kong’s imports from China in order to construct a set of factors of Hong Kong trade which have been used to adjust the shares of the US, Hong Kong, Japan, West Europe and residuals for all provinces. This method undoubtedly understates Guangdong’s exports to Hong Kong because many of Guangdong’s exports are daily necessities consumed in the colony, but in comparison with Figure 5.3, it indicates in general the importance of Hong Kong as a final trade destination. It should be recalled that Taiwan and South Korea cannot
be displayed because we do not have provincial-level trade data for them. Part of their trade is unofficial and therefore ‘off the map’, and the official part inflates the Hong Kong share in Figure 5.3 and the residual in Figure 5.4.

In theory, a province could have pies of quite different sizes if its GSP were very much larger or smaller than the national average. The clearest case of this is Hainan Island, whose trade volume is not particularly high but whose GSP is quite low. As a result, Hainan’s trade is very important to Hainan itself, but not to the national total, and its pie is small in Figure 5.3 and large in Figure 5.4. But the general similarity of the sizes of the provincial pies in the two figures indicates that the provinces for whom trade is important (those with the big pies in Figure 5.4) are usually those who are major exporters (those with the big pies in Figure 5.3).

The most striking aspect of the size of the figures is the great differences between the coastal and inland provinces. For most of the inland provinces trade is still peripheral to their economic development. Export in most inland provinces only accounts for around 1 per cent of the national total, and as low as 2-3 per cent of their GSP (the data is presented in Table 5.2). All top ten provinces in exports in 1990 are from the coastal region. About 22 per cent of the total national export was conducted by Guangdong, the leading province in trade. Liaoning and Shanghai account for 11 per cent respectively. The share of export in provincial GSP of all the coastal provinces, except Jiangsu, also rank the highest in comparison with inland provinces, ranging from 18.32 per cent in Guangdong to 5.26 per cent in Hebei. Even if the exports of certain coastal provinces, such as Fujian and Hainan, are less important nationally, they prove to be essential in provincial economic development – exports are 12.57 per cent in Fujian’s GSP and 15.78 per cent in Hainan, second only to Guangdong. All in all, for coastal provinces, trade has become central for economic growth, as indicated by the export share of provincial GSP, and these provinces are the primary participants and beneficiaries of the national policy of international openness.

The trading patterns of the various provinces and their partners will be analysed in greater detail below, but some general observations can be made on the basis of the two figures. First, Hong Kong’s trade share as final destination (Figure 5.4) is about half of China’s total exports to Hong Kong (Figure 5.3). Hong Kong remains a significant export destination in its own right, but beyond southeast China its share is exceeded by the other major trading partners. And the residual, which includes Taiwan and South