CHINA'S BORDER TRADE AND ITS RELATIONSHIP TO THE NATIONAL POLITICAL ECONOMY

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Trade-related diversification is one of the major phenomena of China in the reform era. Clearly foreign trade and investment contributed to the more rapid economic growth of coastal areas. The regional inequality that trade-related diversification has produced has led recently to major national initiatives to improve the capacity of western regions to attract investment and participate in the global economy as part of the Tenth Five Year Plan (2001-2005). It has also contributed a new dimension to relationships between provincial governments and the center.

1 An earlier version of this paper was presented at the 50th anniversary conference on Sino-Vietnamese relations, Nanning, January 2000, and published as “Bianjie maoyi di tedian ji qi yu guojia zhengzhi jingji de guanxi” [The general characteristics of border trade and its relationship to the national political economy]. Dongnan ya jiheng [All-Round Southeast Asia] no. 71 Academic Supplement, December 2000), p. 76-80.

2 Comprehensive evidence is presented in Wang Shaoguang and Hu Angang, The political economy of Uneven Development: The Case of China (Armonk: M. E. Sharpe, 1999), especially Chapter 4.


Although the differential effects of foreign trade and investment at the provincial level have attracted the attention of scholars inside and outside of China, attention has usually been focused on differences in the quantity of trade rather than distinctive patterns of trade. In earlier research on patterns of provincial trade, we argued that the common distinction between coastal and inland provinces overlooked the distinctive pattern of border trade. Here we take that analysis a step further by considering how the relationship of border areas to the center is affected by the specific characteristics of border trade.

Border trade is international trade that is specific to a locality trading with a neighboring country. Even though the concrete situation of China’s borders with each of its neighbors is unique, and each situation changes over time, it is possible to discuss the general characteristics of border trade and to contrast border trade with other forms of international trade. This essay will first discuss the differences between inland, coastal and border patterns of trade. Second, it will discuss the relationship of border trade to China’s national political economy. It will conclude with a summary of the lessons from the successful development of border trade over the past ten years. Special reference will be made to the border trade between China and Vietnam in order to provide coherent illustrations of the argument, but the analysis itself is general enough to apply to all border areas.

Inland, Coastal and Border Trading Patterns

International trade is often discussed as if it were uniform and affected all parts of a nation equally. In a small country that may be the case, but in a country as large as China it is clear that different areas are affected differently. In China, distinctions between coastal and inland areas are often made, but it is also important to consider border areas as a separate category. The situation within these three regions, with respect to international trade, varies significantly. We will consider the basic characteristics of inland, coastal and border areas in turn. These basic characteristics are demonstrated empirically by the data presented in our earlier research.

Inland areas are advantaged in international trade only by their resources, not by their location. For instance, Hunan has always been an exporter of tung oil because tung trees grow there and it is a rare product that is worth the transportation cost to export. But it is common for inland resources to be sold to coastal areas, and for coastal areas to produce the finished goods that are then sold abroad. For instance, Hunan lumber might be sold to Shanghai and then made into export furniture. There is also indirect utilization of inland resources by coastal areas. An example would be if Guangdong farmers switched from growing rice to growing fruit and tobacco for export, and then Guangdong imported rice from Hunan to make up its shortfall. Indirect trade is better than no trade at all, but it is priced according to the domestic market and therefore it tends to be less profitable than direct trade. Lastly, if a general factor of production such as labor cost is low throughout the country, it will also be priced low in inland areas. However the low-cost labor in coastal areas will be more convenient for exporters, so they will tend to develop the coastal areas first. Only after they have driven


6 Zhao and Womack, especially pp. 145-161.
up the local price of labor in the coastal areas will the inland areas begin to look relatively more attractive.

The resulting pattern of trade for inland areas has two characteristics. First, it is relatively weak. Inland areas have less direct trade and it is difficult to distinguish indirect trade from domestic trade. To an inland locality the world seems further away. Second, the pattern of trade may be distorted by resource advantages, but otherwise it is likely to follow the national pattern. Hunan may sell more ton oil than other provinces, but there is no reason for it to sell its ton oil to one country rather than to another. As a result of these two factors, an inland area might feel that it will never catch up with coastal areas and is disadvantaged in its indirect trade. However, to the extent that international trade increases the national economy, it also benefits inland areas.

Coastal areas are the localities most immediately and deeply affected by the forces of global trade because their trading advantages and disadvantages most closely mirror the national situation. Global trade and investment involve large transportation costs and great cultural distances as well, but the profit created by differences in global factors of production makes global trade worthwhile. Seaports develop the infrastructure that makes ocean shipping possible, and the areas around seaports are the most convenient suppliers of national goods. Within the national economy, the ability to export makes the coastal areas strong consumers of domestic production because they can market these products elsewhere for a profit, and the ability to import makes them strong suppliers of goods not produced domestically and therefore not otherwise available.

The resulting pattern of trade for coastal areas is, first, a leading role in global trade. The local production in coastal areas will be stimulated by foreign demand, and the commercial centers of coastal areas will become the entrepôts and places of final production for the product components from inland areas. Secondly, coastal production will be based more on global factor advantages such as low labor costs rather than on local natural resources. Even if a coastal province has an unusual amount of one resource or another, its volume of trade, based on global factor advantages, is likely to outweigh trade based on resource availability. Since long-distance trade is directly available, coastal areas will market their products for a global market rather than favoring a particular destination. Because of the profits involved and the size of enterprise necessary to compete globally, commercial interests and concerns will be especially prominent in coastal areas. Coastal areas are the main beneficiary of an expanding global market; of course, they are also the most obvious victims of a failing global market. Coastal areas therefore have a vital interest in national trade policy in general, but they do not have an unusual interest in any specific bilateral relation.

Border areas are characterized by international trade that is far more convenient than global trade, but it is tied to the political economy of the specific neighboring country. Border areas do not need great ports in order to carry on international trade, because, at the border, international trade can mean walking through a gate with a carrying pole. Because of the convenience of crossing borders, it is often the case that there is a common local culture and even ethnicity on both sides of a border even if the national populations and culture of the two countries are quite different. In any case, the border populations will usually be familiar with one another. However, since borders are a primary location for international conflict and the first areas to feel the effects of hostility between neighboring countries, the natural political economy of a border area can be completely disrupted by war. In the case of China and Vietnam, border trade was distorted from 1954 to 1975 by massive aid programs connected to the American war, and then by hostility from the late 1970s to 1991. The political context became “normal” only in the 1990s.7

7 Brantly Womack, "Sino-Vietnamese Border Trade: The Edge of
Because there is no great geographical or cultural distance at the border, border trade can be much more flexible and small-scale than global trade. For instance, someone in Pingxiang might buy buttons in China or in Vietnam depending on where they are cheaper, and if the relative prices change they might buy them in the other country the following month. Border trade can be based on momentary price differences rather than advantages in factors of production, and low transportation costs can make even a small transaction profitable. For instance, even though China is a net importer of rice and Vietnam is one of the world’s largest exporters, Chinese rice will immediately cross the border if its price happens to be lower. This does not mean that border trade flows are arbitrary and unpredictable, because price differences are based in part on differences in production costs. However, if production costs are in fact lower on one side of the border, then the low transportation costs will shift the product to the higher-priced economy. Since the Chinese economy is much larger than those of all of its mainland neighbors, if neighboring goods are cheaper it does not threaten the national Chinese production, but if Chinese goods are cheaper then it is possible that the neighbor’s national production will be threatened.

There are four resulting characteristics of border trade. First, border trade is linked to a specific neighbor. Guangxi has a border with Vietnam, and the Vietnamese economy, rather than the global economy, will determine its potential for border trade. A disproportionate amount of Guangxi’s trade will be with Vietnam—far greater than the national percentage—because with any other country, Guangxi’s situation would be more similar to that of an inland area. The situation of Heilongjiang and Siberia would be similar in principle, but totally different in content.

Second, the low barriers of geography and culture in a border area make border trade diverse and flexible. Border trade will be very diverse in content, more diverse than the national trade pattern. Even if demand exceeds local supply, border trade can pull products in from the national retail and wholesale systems, even without special production. Of course, if scale and stability of demand justify special production, then that can be done as well.

Third, the asymmetry of China’s border relations lead to different impacts of trade in China and in its neighbors. If the Vietnamese manufactured a cheaper air conditioner than China, it would have immediate effects in Guangxi, but it would be a long time before Vietnam would threaten China’s national production. On the other hand, if China produced a cheaper air conditioner than Vietnam, it might be difficult for Vietnam to preserve its air conditioner industry. It can be expected, therefore, that China’s neighbors will be sensitive to the threats to domestic production posed by Chinese products, and that consequently there will be protectionist policies.

Fourth, border trade involves the exchange of third-country products as well as domestic production. In this respect border trade can appear to be like coastal trade, because for instance Toyotas can be imported through Shanghai and Guangzhou or through Vietnam at the ports of Dongxing and Pingxiang. The differences are that third-country access to border ports is not direct, and therefore it is controlled or influenced by the policies of the neighboring country. Also, border ports lack the global infrastructure of coastal ports. The informality and ease of border trade makes smuggling an endemic problem. On the Guangxi border smuggling grew to a grand scale, possibly 50% of all trade, until a vigorous crackdown began in 1999. The third and fourth characteristics underscore the fact that border trade is in a very active relationship with policy decisions in the neighboring country.

Although clear distinctions can be drawn in principle between inland, coastal and border trade, reality can be more
complex. For example, from a national perspective Guangxi is a border region, but within the province the northwest is more similar to an inland region, the east has some coastal characteristics, while the south is clearly the border area. Even on the border itself a mountainous county with poor transportation will be less affected by border trade than a city with a railroad and national port status. Moreover, although border trade is by definition trade with a neighboring country, both countries are part of regional and global systems. For instance, American capital might be invested by a Hong Kong firm in a hotel in Quang Ninh Province, Vietnam, to serve Chinese tourists from Guangxi. Moreover, as border cooperation improves, regional patterns of trade will respond to new opportunities of access.

The most interesting case of a mixture of types is Guangdong Province. On the one hand it is a coastal province, participating in global trade. If Hong Kong did not exist, Guangdong would still be very active in global trade. But Guangdong also has Hong Kong as a neighbor, and not only does Hong Kong remain a separate customs territory, but the structure and history of its trade makes it one of the most globalized economies in the world. Guangdong’s relationship to Hong Kong does have the characteristics of border trade: it is specific to Hong Kong and it is very diverse and flexible (for instance, bulk fresh water piped from Guangdong to Hong Kong is not a normal item for global trade). But having Hong Kong as a neighbor is like living next door to a shopping mall.

Even though the categories of inland, coastal and border trade are mixed in reality, they still remain useful for purposes of analysis. For example, in comparing the political economies of Guangdong and Shanghai, it is important to note their similarities as coastal provinces, but it is just as important to note the differences created by Guangdong’s border relationship with Hong Kong. If we consider the development of Guangdong’s economy since 1979, both coastal and border advantages were involved in its success. Ezra Vogel’s account of the founding of Shenzhen Special Economic Zone makes clear the unique role that Hong Kong played in creating Guangdong’s special policies as well as its initial success. By contrast, the role of Pudong in Shanghai development in the 1990s was more global. Rather than supplying simplified “boxes” for cases, the analytical distinctions between inland, coastal and border trading patterns should help clarify a complex situation.

The Effect of Border Trade on the National Political Economy

By definition, border trade is an activity on the periphery of the national economy, and therefore its contribution is easily overlooked. The fact that each border relationship is different makes it difficult to focus on the general relationship of border trade to the national economy. Moreover, the two directions of the relationship between border trade and national political economy are quite different. The relationship is further complicated by its international dimension, namely, the relationship to the neighboring country. This section will discuss the effect of border trade on the national political economy, while the next one will deal with the reverse direction of the relationship.

In a large country like China, border trade will not be a prominent aspect of national well-being, but its contribution will be beneficial in general and irreplaceable in border regions. The relationship between Hong Kong and Guangdong is certainly the most important of the border relationships, but it should be remembered that one reason the center decided to experiment with exceptionalist policies in

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Guangdong was that in 1977 it was on the periphery of the national economy and below average in per capita Gross National Product. Later, the fact that Hong Kong was a conduit for global trade complicated the profile of the relationship.

The border is the political boundary of a state, but whether or not it functions as an economic boundary depends on the realized capacity for economic activities that cross the border. If these flow freely, then in effect the national market extends beyond the national political limits. Beer that might be sold in Guangxi sells in Vietnam as well; timber that might come from Yunnan comes from Laos and Burma as well. Because the transportation costs between border provinces and their neighboring countries are no more than the internal transportation costs within China, the primary economic effect of border trade is market extension rather than the creation of special new markets. Of course, to the extent that border trade is regulated and restricted by both sides, it would have higher costs and more uncertainties than internal trade. But border trade operates on the same principle of market presence and price competition. With border trade, China becomes a larger economic entity than it would be if its borders were sealed.

The expansion of economic space through border trade also affects the structure of the domestic economy. If there is no border trade then border regions are handicapped compared to inland regions because an inland region can engage in a full geographic circle of domestic trade while the directions of domestic trade for a border region would be limited by the closed border. A locality on a closed border is at the furthest point from the center of economic activity. A locality on an open border is still far from the center, but it is also in the front row of cross-border economic activities.

If we consider that the national political economy has a responsibility for disadvantaged and poorer regions, then a closed border creates the potential for a major welfare drain on national resources, while an open border would create new sources of prosperity at the edges of the domestic economy and would add to revenues as well. Without border trade the national economy will have to make special efforts to lift up its edges; with border trade the edges become a frontier of new economic opportunities and thereby lift themselves.

Border regions and the nation as a whole have common interests in prosperity through market expansion, but there are differences in interests as well. Border regions receive the most concentrated benefit from border trade, and they are responsible only for social order in their own area. For the nation as a whole, border trade is not so important, but central leadership has a special responsibility for social order and a heightened awareness of perceived threats. To take an important example, if there is a high tariff on imported automobiles and therefore automobiles are smuggled across the border to avoid the tariff, the border region has the benefit of cheaper imported cars as well as more trade. However, the center will be more concerned with the ineffectiveness of customs and of border security as well as with the protection of domestic automobile producers, most of whom are not located in border regions. On issues of common benefit, for instance, legal trade, or common harm, for instance, drugs, HIV, or guns, national and local perspectives would converge. However, on other issues it would be natural for border regions to prefer more open policies and for central leadership to be more conservative.

Border regions and national governments also play different roles in relations with the neighboring country, though the roles are usually mutually supporting. Clearly, the highest leadership of sovereign nations should be responsible for foreign policy, and any international contacts between local governments must take place in accordance with national policy. But in the case of two bordering nations, there will be a much greater need for and interest in concrete cooperation at the local level than there would be in a situation of global trade. Paired border towns like Guangxi's Dongxing and Mong Cai
in Vietnam must cooperate on a daily basis in order for the border markets and crossing points to function smoothly, and both sides of an international bridge have to be built at the same location and at the same time.

The activities of local governments and enterprises are very important for the quality and content of peaceful relations. By contrast, hostile relations between neighboring states are tense but simple. Security is the principal issue, armies are the principal participants. Propaganda is the main item of exchange and border traffic is regulated by landmines. Peaceful relations are more relaxed, but also more complicated. As the landmines are removed and the armies dwindle, both sides of the border must prepare for the opportunities presented by peace. This requires familiarity and local cooperation, and these are necessarily the tasks of local officials and enterprises.

The national benefit of local cooperation is that it stabilizes peaceful relations by facilitating mutually beneficial exchanges and smoothing the inevitable frictions of increasing traffic. Just like the government of a city makes possible the city's contribution to the national economy by providing infrastructure, regulation and conflict resolution, border cooperation at the local level makes possible the benefits of peaceful bilateral relations. Although crises continue to occur even with generally peaceful bilateral relations, the existence of cooperation stabilizes peace by making its benefits more obvious, involving more groups on both sides in mutual projects, and thereby raising the costs of hostilities.

The beneficial effect of border trade on the national political economy is not likely to be appreciated sufficiently. Each particular border is only a part of a broad and diverse periphery, and in any case, the national economy is not driven by its edges. Nevertheless, border trade makes the edges of the domestic economy a positive contributor to the whole by expanding the reach of the national market. Moreover, local-level cross-border cooperation contributes to the utility and stability of peaceful relations with neighboring states.

The Effect of the National Political Economy on Border Areas

The effect of the national political economy on border areas is in some respects more noticeable than the reverse. Border areas know that they are not in control of national policy, and they know that their interests are subordinate to national interests. Nevertheless, it is possible for border areas to misperceive their relationship to the national political economy. Border areas might perceive national policy only as a restraining hand on open relations at the border, and overlook the fact that it is the existence of the national political economy that creates the capacity for border trade.

Let us imagine what the situation would be like if Guangxi were an independent country. Probably its relations with Vietnam would be more flexible than they are at present, because they would reflect only the interests of Guangxi, and trade with Vietnam is far more important for Guangxi than it is for all of China. But Guangxi's economy would be far less interesting to Vietnam, and Guangxi would have to be concerned about other borders. Not only would Guangxi lose its current benefits from being part of the national political economy, but the loss of those benefits would undercut its potential for border trade, even if it were better able to manage its own policies.

As the above example illustrates, the primary effect of the national political economy on China's border areas and border trade is that they are the edge of a large national market. Border trade can draw on the resources of national retail and wholesale supplies. The resources available at the border are the national resources rather than merely the local resources. The availability of the national market especially enhances the trade potential of border localities with good transportation, because the transport infrastructure can sustain a higher volume of trade. However, even remote places are affected, and their trade potential should stimulate the further development
of infrastructure. Just as the national political economy benefits from border trade through extension, the border area benefits from the national political economy because of availability of goods.

Nevertheless, the national political economy often seems far away from border areas, not only in location, but also in interests. While trade with the neighboring country is a major concern of the border area, it is only a minor part of two intersecting policies for the nation as a whole: general trade policy on the one hand, and overall foreign relations with the bordering country on the other. However important or profitable border trade is for the border area, from a national perspective, it can be sacrificed for a general trade policy that calls for more regulation of trade and protection of domestic production, and it can be reduced as a form of economic sanction against the neighboring country as part of a larger foreign policy. Thus border trade is vulnerable to policy change at higher levels that do not relate specifically to the issue of border trade itself, and consequently the political economy of border areas remains dependent on external factors that influence its national policy context.

Border trade also depends on the national policy of the neighboring country, and since 1990 there has been greater variability in the regulation of border trade by neighboring countries than in China’s own border trade policy. For example, from September 1992 to April 1993 Vietnam attempted to embargo seventeen categories of consumer goods, most of which came from China. The special vulnerability of border areas to the consequences of the economic policy of the neighboring country is a unique characteristic of border areas.

Trade, by its nature, is founded on mutual benefits, since no one is forced to buy and sell. However, trade has structural consequences for economies, and not all of the consequences are beneficial. When goods can be transferred easily between neighboring economies, the threat of damaging structural effects seems more pressing, and the natural consequence is trade regulation. When the two economies are vastly different in their scale and capacities, then the larger side can afford to be indifferent to structural consequences, while the smaller side is likely to be especially sensitive and fearful of them.

The Chinese economy is larger and more vigorous than any of its border countries. China has sixteen times the population of Vietnam, around thirty times the land area, and more than thirty-five times the GNP. With such a difference in scale, Vietnam is naturally more concerned about Chinese products threatening domestic production, and about Chinese demand for Vietnamese raw materials threatening supply. There is also the large and growing problem of a balance of trade deficit. Therefore it is to be expected that the Vietnamese government would worry more about the Chinese economic presence than vice versa. Although protectionist policies harm both sides by reducing trade, they do make sense if trade threatens economic structure. It can also be expected that the initiative for developing economic relations would come more often from the Chinese side, and that Vietnam would be slow and cautious in its response.

The ambivalent attitude of the neighboring country toward the development of border trade and economic cooperation puts the government of the Chinese border area in an awkward position. On the one hand, its interest is to maximize the relationship. On the other hand, it does not want to provoke protectionist reactions. There is no solution to this dilemma. Rather, one can expect that border cooperation will be a frustrating experience, often two steps forward and one step back. Nevertheless, the worst outcome for the border area would be for China to respond to protectionist policies with reciprocal limitations on trade and cooperation.

In sum, border areas are fully aware that they do not control national policy and can be directly affected by the policies of the neighboring government as well. Like a farmer and the weather, they are concerned about things that they cannot control. However, they may be less conscious of the importance of the national political economy for creating the potential for border trade. In relationships with the neighboring country, border areas are in the contradictory position of being the most energetic promoters of expanding the economic relationship and at the same time the ones with the greatest interest in patience and mild responses to protectionist policies.

**Conclusion: On the Correct Handling of Border Trade**

To sum up the discussion in one sentence, the very size of China’s national political economy creates a series of unique trading situations with specific countries on its border that in turn shape local opportunities and interests. There is no basic conflict of interests between the national political economy and border areas. National prosperity and local prosperity are mutually reinforcing, and national calamity and local calamity are mutually destructive. However, the unique economic situation on the border also leads to interests and perspectives that are distinct from the national perspectives and priorities of central leadership.

For the past ten years, China’s general policy toward border trade in general has been an outstanding success, and it has had good relations with Vietnam at the border. National policy has encouraged local initiatives, and in turn the new economic relationships with neighboring countries have encouraged a general improvement of China’s relations with its neighbors. A symbol of the successful relationship of national policy and local activity is the treaty determining the land border of China and Vietnam signed on 30 December 1999. Border trade has contributed to China’s overall economic growth and to a better distribution of economic prosperity.

What are the lessons of success? First, that a consistent national policy favoring international economic activities eventually benefits the entire national economy. The policy of opening to the outside was first targeted at Guangdong and Fujian. Later it was broadened to include coastal areas and finally the entire economy. The new policy context was of fundamental importance for border trade. Previously, border trade policy had been based on providing for the convenience of border populations by allowing small-scale trade. It was not intended to grow and become the basis for local economic development. Under the policy of openness, not only is border trade encouraged, but there is no upper limit to its success.

Secondly, border trade and border cooperation have been sustained by national foreign relations. The annual exchange of official delegations at the highest level both reaffirms the importance of friendly relations and provides a regular opportunity for the common review of current problems at the highest level. Moreover, the national leadership has not taken offense at protectionist policies or retaliated with quid pro quo sanctions. This has permitted neighboring countries to regulate the rate of development of trade without harming the relationship, which is very important given the asymmetry of the relationship.

Thirdly, every level of leadership has encouraged border trade by permitting lower levels to have more flexibility and initiative. Beginning with Guangdong and Fujian, the center has allowed provincial governments to pursue innovative policies appropriate to the local situation and to retain some of the revenue generated by success. Perhaps more importantly, creative and daring persons were appointed to positions of provincial leadership. Similarly, within provinces new leadership was sent to border areas, sometimes people who spoke the language of the neighboring country and were familiar with its
economy, and they were encouraged to develop trade and to cooperate with their counterparts across the border. As a result, new economic realities have sprung up in places where in the past people had not dared to dream of prosperity.

As China continues to develop its position among its neighbors will increase in importance. As long as national economic and foreign policy are stable and local leadership is encouraged to take advantage of its unique opportunities, border trade and border cooperation will play an important part in contributing to prosperity and in cementing friendly relations.

A little noticed anniversary took place in early 2001. Nine years ago, in January 1992, U.S. Under Secretary of State for Politics Arnold Kanter met in New York with Kim Young Sun, the Korean workers Party Secretary for International Affairs, in what was the first-ever senior-level meeting between the United States and the Democratic People's Republic of Korea (DPRK). Kanter laid out the seven preconditions North Korea needed to meet if it wanted to normalize diplomatic relations with the United States, including resolving the question of the North's separation of plutonium for use in nuclear weapons. Kim promised that the DPRK would sign a safeguards agreement with the International Atomic Energy Agency (IAEA) in the next few days and would also imple-

1 This paper was commissioned by the National Intelligence Council for a conference sponsored by the National Intelligence Council and the Federal Research Division of the Library of Congress, February 23, 2001.

2 The other preconditions were: (1) ending all ballistic missile exports, (2) placing its chemical and biological weapons programs under international control, (3) regularizing the return of U.S. MIAs from the Korean War, (4) declaring that it would not engage in or support terrorism, (5) making "substantial progress" in North-South talks, and (6) improving human rights conditions, e.g., allowing the meeting of divided families. See Mitchell B. Reiss, Bridled Ambition: Why Countries Constrain Their Nuclear Capabilities (Washington, D.C.: Woodrow Wilson Center Press, 1995), pp. 239, 293.