

**Regional Development in China:**  
*A Canadian Perspective*

By

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## REGIONAL DEVELOPMENT IN CHINA

### Abstract:

Regional economic development is a concern for many countries, as inequality and discrepancy in the national economy can lead to civil unrest and hinder further growth of the country as a whole. While each national government has the jurisdiction to oversee reductions in regional inequality, there is the potential for exchanging ideas with other nations that have similar regional issues.

Western China has not performed as well as the coastal cities of China. Now the Chinese government has outlined a plan to address regional economic issues in Western China; however there is reason to believe this will not adequately solve the division between East and West China.

The Canadian Government has used the Atlantic Canada Opportunities Agency (ACOA) to implement programs designed to reduce regional economic inequality within Canada. Western China might use a similar model; however this would be difficult given the current political situation in the country. Given this reality it is unlikely that an ACOA styled agency can be developed by CIDA in Western China.

Andrew Ramsay, "Regional Development in China: A Canadian Perspective", December 2004.

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## **Dedication**

I dedicate this work to my parents, my sister Amber and her husband Jason, my new nephew Noah, and my girlfriend Robyn who have all been very supportive while I have completed my Masters program at Saint Mary's.

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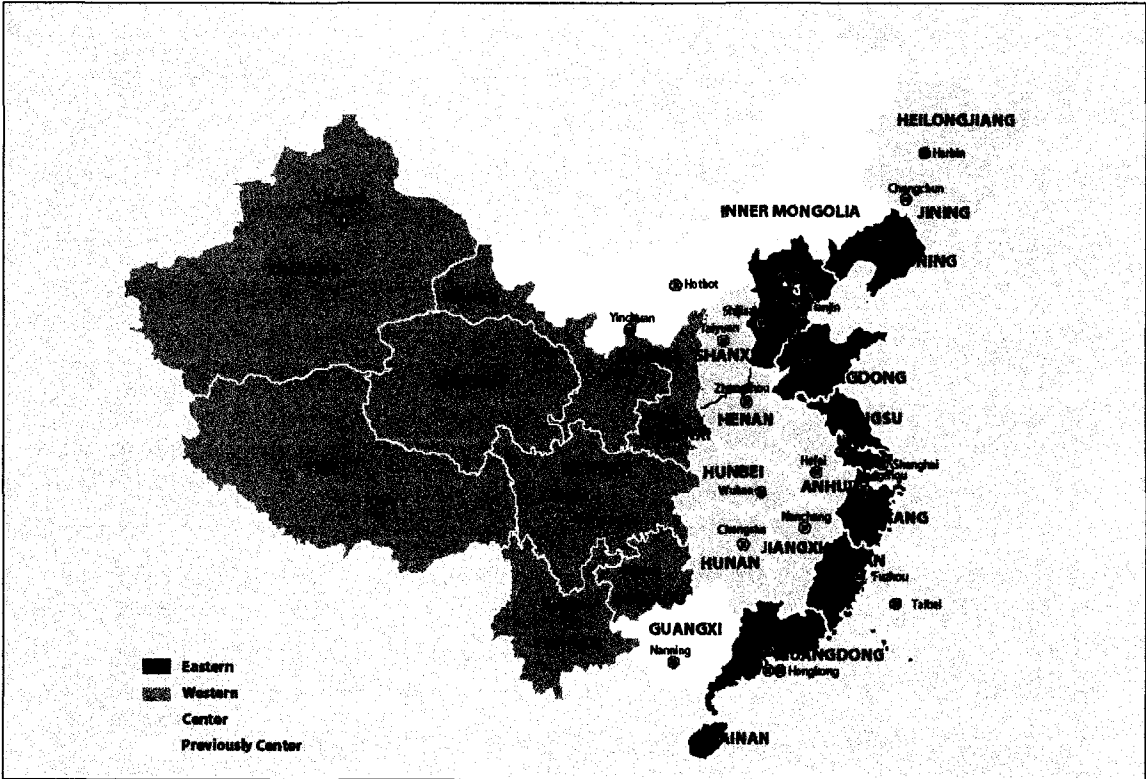
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**Table of Acronyms**

ACOA – Atlantic Canada Opportunities Agency  
AIF – Atlantic Innovation Fund  
AIMS – Atlantic Institute for Market Studies  
BDP – Business Development Program  
CDPF – China Country Development Programming Framework  
CIDA – Canadian International Development Agency  
CPC – Communist Party of China  
DREE – Department of Regional Economic Expansion  
ECBC – Enterprise Cape Breton Corporation  
EPZ – Export Processing Zone  
FDI – Foreign Direct Investment  
FYP – Five-Year Plan  
GDP – Gross Domestic Product  
HDI – Human Development Index  
NIC – Newly Industrialized Countries  
OECD – Organisation for Economic Co-operation and Development  
PSD – Private Sector Development  
SCIF – Strategic Communities Investment Fund  
SEZ – Special Economic Zone  
SME – Small and Medium-sized Enterprise  
UNCTAD – United Nations Conference on Trade And Development  
WDS – Western Development Strategy  
WRDP – Western Region Development Program  
WTO – World Trade Organization



Map # 1: Regions of China



Asian Development Bank

## **CHAPTER 1: DISPARITY WITHIN NATIONS**

### **1.1 Introduction**

Regional economic development has become a concern for countries, as regional disparity may hamper further national development. This Applied Project report, based on the work experience I received during my time at the Minister's Office of the Atlantic Canada Opportunities Agency (ACOA) in Ottawa, will address the issue of regional development in China using ACOA as a possible model. ACOA is a regional development agency within Canada that was created under the ACOA Act in 1988. It, along with other agency counterparts in the regions of Northern Ontario, and Western Canada were created to address similar economic issues. The Canadian government has created these development agencies as a mechanism to inject resources into communities, local businesses, and institutions with the intention of helping them grow and prosper.

Regional economic development will be the focus of this report. Regional development has been undertaken in many countries that, for various reasons, have a geographic area within its borders that has not experienced economic growth equal to that of other regions. The divide in regions is especially hard felt in developing countries, where the gap of income and regional inequality is deep. Of particular interest is the situation within China, where in the past two decades, the country has seen large growth in Gross Domestic Product and great socioeconomic advancement in its coastal cities, however growth has remained stagnant in Western areas of the country. While Western China and Atlantic Canada may not initially appear to be similar, based on their economic situation, both regions face similar challenges. Both areas are highly dependant on the production of primary products for employment that typically result in

lower wages and receive less monetary value compared to manufactured products. Also, both regions are rural, and are experiencing an exodus of young people to larger centers that offer greater economic security. An example of China's regional divide is documented in Table 1-1, which compares the GDP and Per Capital GDP in Eastern, Central and Western China. The data illustrates the inequality that exists between the Eastern and Western regions of China, with the West having far lower percentage of GDP and Per Capita GDP.

**Table 1-1: Economic Indicators of Various Regions, 2000**

Region	Population (%)	GDP (%)	Primary Industry GDP (%)	Secondary Industry GDP (%)	Tertiary Industry GDP (%)	Per Capita GDP (yuan)
Eastern	37.9	57.3	43.0	59.8	60.0	11,335
Central	32.1	25.6	32.1	25.1	23.5	5,982
Western	27.4	17.1	25.0	15.1	16.5	4,687
Southwest	18.5	11.0	16.9	9.5	10.5	4,468
Northwest	8.9	6.1	8.1	5.6	6.0	5,143

China Statistical Yearbook 2001.

This report will examine the current regional development strategies for less developed areas of China, specifically the Western region of the country. The theme of the report will focus on the viability of a regional development agency in Western China. Using personal knowledge of ACOA and its programs, as well as my experience working in China for one year and witnessing the inequality that exists in that country, it is my intention to investigate benefits that may be incurred by China if it were to adopt a similar strategy that has been implemented for Atlantic Canada. ACOA has implemented programs that are targeted to address issues considered to be hindering the economic development of Atlantic Canada. Having reviewed the ACOA programs, it is my belief that there is the potential for a similar agency to be developed for Western China that will achieve results to reduce inequality and economic uncertainty in that region. When

writing my practicum report I intend to demonstrate why the Canadian Government has been successful in addressing regional economic development using the ACOA model in Atlantic Canada. I will then discuss what role the Canadian International Development Agency (CIDA) would have in implementing a similar model in Western China.

The use of low labour costs to attract investment has been occurring in China for decades. As a result, the nation has seen high growth rates in its coastal provinces. However, as the government attempts to replicate the same process in Western China, it has faced the obstacle and barrier of increased transportation costs. While working in China in 2002, I had the opportunity to visit several towns and cities throughout the Northeastern half of the country. It was during this time that I developed an interest in contrasts between rural and urban China. Witnessing how the growing economy has benefited some at the expense of others has led me to examine alternative forms of development. While working with ACOA during the summer of 2004 I became involved with programs that are offered by the agency. Within these programs, I hope to find ones that may be successful if implemented in the Chinese hinterland and make a case for an agency approach to development for Western China.

For the implementation of an ACOA type development program in Western China, I believe the Canadian International Development Agency (CIDA), as the international development arm of the Canadian government has a key role to play. This report will analyze the CIDA regional development policy as a concept for delivering development funds, and then more specifically what policies and programs CIDA has created for the development of Western China. Once this information has been collected and analyzed, it will then be possible to determine what programs that are administered

through ACOA can be utilized to meet CIDAs objectives for development. When attempting to assist other countries with development issues, the Canadian government has the advantage of looking at its own programs for potential implementation within an international context. ACOA is one creation of the government that has been successful in achieving its goals domestically.

## **1.2 Methodology**

Before determining what has caused the inequality within China between Western and Coastal provinces, I must first examine the data that will prove there is indeed inequality within the country. To accomplish this I will examine economic data from such sources as the Chinese government, Asian Development Bank, World Bank and other institutions that may contain Chinese economic data, highlighting the average national income and then an examination of each region or province. Having conducted this quantitative research, I hope to establish that there is or is not inequality between the Coastal and Western provinces of China.

I must also look at the theoretical research that has been completed on regional inequality within nations. Regional inequality within China has been studied by several economists; including Jeffery Sachs of Harvard University. Economic studies such as this will provide qualitative and quantitative research basis for determining the cause of inequality in China. Compiling research from several authors that are of the same opinion will provide a stronger argument if there is one cause of inequality that is dominant over other theories. Although there may be one dominant cause, research will also be done on other possible scenarios. I will provide my own perspective on regional

development issues in China, having worked in Beijing for a year and been exposed to the inequality that exists in the country.

The Asian Development Bank has published a report called “The 2020 Project” that outlines economic and social issues in Western China and suggests policy that can reduce the inequality within China. The Western Region Development Program (WRDP) is a document that was written by the Chinese government as a blueprint for growth in Western China. This source of development strategy by the Chinese government will give me the opportunity to research the direction of the Chinese government in addressing regional inequality. The WRDP will provide a basis to compare what the Chinese government is doing to address regional development and what policy suggestions economists and institutions such as the Asian Development Bank have for the country concerning regional economic development.

The Chinese government experimented with economic zones when it began to open its economy to capitalistic endeavors. Since that time, export growth has expanded rapidly; however this growth has been limited to the Coastal areas in which these zones are located. My research will include a statistical examination of the growth that has occurred within these cities since the establishment of zones within its borders. I hope to obtain information on per capita income as a measure of the growth of personal wealth within economic zone cities. I will be obtaining this information from Chinese government documents such as the China Statistical Yearbook that is published annually. It may be difficult to get a copy of the Yearbook since they are primarily printed in Chinese and may not be carried by libraries in the area. The Chinese government does

have statistical information on the Internet; however this may also be difficult to obtain in English.

Authors that have written on the success of economic zones in China will also be a source of information for the report. The papers and books that have been written on the subject will give an objective opinion on the success of economic zones and may also provide statistical information that I can use. This type of secondary information will form arguments that are in favour and against the establishment of economic zones in Western China as a catalyst for economic growth in the region. It is important to give an analysis that is balanced to illustrate the reasoning to establish them by the Chinese government and also the possibilities for replicating the growth that has been experienced in the Coastal regions of the country.

Given what I have researched so far on Western China, I must now examine the economic situation that currently exists in Atlantic Canada. Statistics Canada research will provide empirical evidence of the economic situation that exists in Atlantic Canada compared to other regions of Canada. If I am to compare these two regions, it must be shown that they are similar in terms of their unequal status within a national framework.

Having examined the strategy of the Chinese government to reduce inequality, I will also take the same approach by looking at the Canadian experience. In particular I will research the policies of ACOA and programs that have been developed to increase economic prospects in the region. I will also be able to contribute my own observations of ACOA while I worked for the agency in Ottawa. My own personal experience will form an opinion on how successful programs have been and how successful they may be if applied in the context of Western China.

In addition to my own experience, I will also use documents that are in support of and critical of the programs that have been implemented in Atlantic Canada by ACOA. While the agency has injected government funds into the region, it has done so through investment in business development and community infrastructure programs. Some critics claim that this is a form of corporate welfare while others who support the work of ACOA claim that the programs have diversified the economy and strengthened economic growth for the future. The success of ACOA and its strategy will be compared to that of the Chinese government and for that to occur ACOA will have to be critically assessed.

The relationship between Canada and China will also be examined in the report. CIDAs approach for development assistance to China will be analyzed using the CIDA website that is dedicated to projects that are being implemented in China, and in particular Western China. CIDAs objectives and goals when working within China will also be researched. The website has a large amount of resources about CIDA and will provide me with all the information I need to know about the agency.

Using the website as my source will enable me to extract my information quickly. I will use the information pertaining to China to provide an analysis on CIDAs ability to transfer programs that have been implemented at ACOA into the Western region of China. Having read the policies of CIDA and ACOA the analysis will attempt to link the programs of ACOA and into the policies of CIDA in China.



**CHAPTER 2: REGIONAL DEVELOPMENT****2.1 Introduction**

Regional development is a concern for countries throughout the world whether they are developed or developing. It is a reality that has persisted over time in countries where for various reasons; specific geographic regions have continually lagged behind other areas of a nation. These stagnant regions have common characteristics such as being primarily rural, higher unemployment than in other regions, decreasing populations, and an economy based on resource extraction. In rural areas, where decreasing population levels have hindered the progress of development, there is a constant drain of resources from these areas to more densely populated regions. The shift in resources from the underdeveloped region to the progressive regions within a country, over time can have a devastating effect on any attempt to reverse the trend. To determine the causes of regional inequality within China, there must be some consideration of the influence governments have had on economic growth and development. The policies that are undertaken by national governments have a significant impact on the divergence of equality between regions.

Regional development can be achieved by governments if an appropriate level of investment is made in the region, coupled by other policies to promote increased development in the region that will bring increasing equality with other areas of the country. Inequality within nations has occurred due to the prominent focus of specific regions of a country, at the expense of development in others, a policy formation more commonly referred to as cumulative causation theory. As resources are focused in certain areas, the gap between regions increases, causing divisions that are economic in

nature but also political, as the citizens in underdeveloped regions may become less relevant to the political decisions made in the national government. It is important for governments to recognize the significance of increasing development in all regions within its borders. As inequality increases, there is the potential for civil unrest and demands for changes in government that can better meet the needs of people in less developed regions. However, as inequality persists there is a movement of the population from the neglected areas to more prosperous and usually urban areas.

Historically, the increasing rate of urbanization has been consistent throughout the world. The migration from rural areas to urban centers has intensified with the industrialization of countries. Industry is primarily based in urban centers and receives inputs from the rural areas. These inputs can include primary products and low cost surplus labour in the form of displaced workers from agricultural regions. According to Arthur Lewis's model of labour surplus, there is an unlimited supply of labour in developing countries that supports a dualist economy – one in the capitalist sector and another in the subsistence or traditional sector. Within his theory, labour moves from the traditional sector to the modern sector as the modern sector grows.<sup>1</sup> The introduction of new technology since the industrialization era began has intensified the movement of workers. As new machinery is integrated into the production of agricultural products, the need for low skilled labour is diminished. This labour then moves to other regions in search of employment. The plight of population from underdeveloped regions causes more resources and investment to be placed in other areas. Investment and growth have historically occurred in regions in which return on investment can be obtained with low

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<sup>1</sup> Lewis, Arthur. "Economic development with Unlimited Supply of Labour". *Manchester School of Social and Economic Studies* 22, 2. 1954.

levels of risk. As investors look for locations to place their capital, it is more likely they will choose an area that has a growing population, where they will see their investment grow quickly.<sup>2</sup>

## **2.2 The Case of China**

Regional development in China is an important issue for the Chinese government. The situation in China is one that has characteristics similar to other world nations, be it developed or developing. China's Western provinces have fallen behind the other areas of the country in terms of economic growth and its share of the gross domestic product.<sup>3</sup> The region has seen its population move either from rural to urban areas or out of the region altogether to areas in the eastern coastal provinces. In order to understand why China does have an underdeveloped region within its borders, it is important to determine when and how the country developed in the manner it has. The divide between East and West China became more apparent over the last twenty years, since the economic reforms of 1978. With the implementation of strategies that were devised by the central government, China has evolved in the last two decades with a very clear geographic distinction in terms of economic growth that the country has enjoyed during this time.

After Mao Ze Dong's death, the communist party of China moved towards market driven economy, systematically opening itself to foreign interests and investment. While the East benefited from such policies, the West was not as successful in obtaining benefits from the shift. In 1999, the GDP per capita of the western provinces was less

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<sup>2</sup> Thrillwall. A.P. "Growth & Development." Palgrave Macmillan. New york. 2003, pp 307.

<sup>3</sup> Jingping, Ding. "China's Domestic Economy in a Regional Context" The Center for Strategic and International Studies, Washington. 1995, pp 18.

than half of that of the coastal provinces.<sup>4</sup> During the last two decades the Chinese government has used several institutional frameworks to enhance the economic situation of the country. These included special economic zones, the opening of border and port cities, stock exchanges, and other capital market developments, commercial and policy banks, free-tariff development zones and tourism recreation parks. The majority of these development initiatives took place in the Eastern regions of the country. For example, out of the 422 state-level development zones, 360 were in the Eastern region, 36 in the Central region, and only 26 were in the Western region.<sup>5</sup>

The result of such lopsided policy reforms was a country divided between the coastal provinces that had been the centerpiece of China's development strategy, and the Western provinces that had seen little improvement in living standards during two decades of unprecedented economic growth. The Chinese government concentrated its economic policies primarily on creating Special Economic Zones (SEZ's) and using these economic centers as a driver for the national economy. While this strategy was successful in improving economic conditions on the coast of China, the neglect by the government for developing policy for the Western region resulted in a stagnant economy and an increase in the inequality gap between the two regions.

There have been numerous studies on the inequality between Eastern and Western China. The divergence occurred after the economic reforms had taken place as a result of government policies, implemented to begin economic growth in the Eastern areas first.<sup>6</sup> The poor economic conditions that existed in Western China are cited as the initial cause

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<sup>4</sup> Luo, Xubei. The Role of Infrastructure Investment Location in China's Western Development, *World Bank*, 2004, p. 2.

<sup>5</sup> The 2020 project: Policy Support in the People's Republic of China, *Asian Development Bank*, 2002, p.8.

<sup>6</sup> Naughton, Barry (ed). 'The China Circle', *Brookings Institute Press*, Washington, 1997, pp 91)

for inequality. The Eastern provinces have had the advantage of being located on the coast where transportation costs are lower and investment is easier to obtain. The lack of capital invested into the Chinese hinterland has prevented the region from capturing similar growth rates of Eastern provinces. With cities like Shanghai and Shenzhen as gateways into the Chinese economy, investment was more naturally located in coastal areas than in the interior of the country, as shown in Table 2-1 below. Consistently, the Western region has received a lower percentage of capital investment than that which was received by the Eastern region of China, although it appears in recent years that the percentage share has become more evenly distributed..

**Table 2-1: Regional Shares of Government Capital Construction Investment (Within Budget), 1953–2000**

<b>Period</b>	<b>Eastern Region (%)</b>	<b>Inland Regions (%)</b>	<b>Central Region (%)</b>	<b>Western Region (%)</b>
1953–1957 (1st FYP)	36.9	46.8	28.8	18.0
1958–1962 (2nd FYP)	38.4	56.0	34.0	22.0
1963–1965	34.9	58.2	32.7	25.6
1966–1970 (3rd FYP)	26.9	64.7	29.8	34.9
1971–1975 (4th FYP)	35.5	54.4	29.9	24.5
1976–1980 (5th FYP)	42.2	50.0	30.1	19.9
1981–1985 (6th FYP)	47.7	46.5	29.3	17.2
1986–1990 (7th FYP)	51.7	40.2	24.4	15.8
1991–1995 (8th FYP)	54.2	38.2	23.5	14.7
1996	53.8	38.2	23.4	14.7
1997	53.3	39.3		
1998	47.8	39.9		
1999	41.3	58.7	30.6	28.1
2000	36.8	63.2	30.6	32.6

Asian Development Bank, 2002

The Western regions also had lower quality of education for students than other areas that resulted in less progress, hindered by lack of skills obtained by citizens or the out migration of those who could afford to send children to coastal provinces for better

education training.<sup>7</sup> Another reason for the increasing gap between the Western and Eastern provinces was the closed culture and poor natural conditions of the interior provinces. The terrain in the interior has made transportation and access to sparsely populated villages difficult.<sup>8</sup>

The open door policy adopted by the central government, along with the decentralization of power to coastal cities resulted in uneven growth for these areas. The result over the last twenty years has been increased tensions between regional governments and the central government in Beijing. Regional conflicts have resulted in several areas leading some to consider that regional inequality is the cause of China's regional problems and an important policy issue for the government to pursue in the future. According to China's Ninth Five Year Plan (1996–2000) the report “perceives polarization as a serious threat to China's prosperity, stability and unity, and places reducing regional inequality as a top policy priority.”<sup>9</sup> The instability that can occur as a result of inequality within a country is a significant reason for governments to pay attention to economic divides within its jurisdiction. This is especially true in China, where the transformation from a state run economy to one driven by market forces has had drastic implications for all of its citizens.<sup>10</sup>

Another hypothesis why the interior provinces have had lower economic growth is their lack of productivity in the marketplace. This concept is linked to the tendency for

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<sup>7</sup> Knight, John and Lina Song. “The Rural – Urban Divide: Economic Disparities and Interactions in China”. *Oxford University Press*, Oxford, 1999 pp. 101.

<sup>8</sup> Shuming Bao, Gene Hsin Chang, Jeffrey D. Sachs, and Wing Thye Woo “Geographic Factors and China's Regional Development Under Market Reforms, 1978-98” *Elsevier Science* 2002.

<sup>9</sup> Wei, Dennis. “Multiscale and Multimechanisms of Regional Inequality in China: implications for regional policy” *Journal of Contemporary China* (2002), Vol. 11, No. 30, pp. 111

<sup>10</sup> Hughes, Neil. “China's Economic Challenges”. *M.E. Sharpe*, New York, 2002, pp 40.

the central government to ignore the needs of the Western region in favour of coastal development. According to Fleisher and Chen, the major cause of the persistent and widening income gap between the coast and interior is lower factor productivity in the non-coastal provinces. Lower productivity reflects inefficient resource allocation or slow technological adoption or both. Productivity gaps have occurred due to the lack of investment by government and private industry to promote innovative research and development by institutions in the region, or more basically by the lack of having institutions at all to conduct research. This being the case, there are few mechanisms in place to facilitate the transfer of knowledge and investment from other areas of the country as well as Foreign Direct Investment (FDI) that could initiate further growth in the region. In their research on using factor productivity in their hypothesis for income inequality, Fleisher and Chen realized that causes of failure to adopt the best available technology, was due to a (i) failure to invest in physical capital in which the technology is used; (ii) lack of human capital, or knowledge of the best available technology; and (iii) adverse incentives due to market institutions, government controls, etc.<sup>11</sup> These findings are supported by similar conclusions by the Asian Development Bank that has determined inferior factor productivity in the Western region as the principle reason for its lower economic growth. According to the banks statistics total factor productivity in the Eastern region in 1997 was 93.8 while in the Western region it was 78.4. The bank also states that there is a lack of competition in the marketplace that initiates the investment in human resources and technology.<sup>12</sup> The implementation of new technology

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<sup>11</sup> Fleisher, Belton and Jian Chen. "The Coast–Noncoast Income Gap, Productivity, and Regional Economic Policy in China" *Journal of Comparative Economics*, pp. 222, 1997.

would have helped the Western governments in the transition from a controlled economy into the global economy, however without these instruments, there has been little transfer of knowledge and as a result, the transition has been much more difficult.

### **2.3 The Possibilities for Change**

What was determined in the study by Fleisher and Chen is that there was a need for more focused approach by the various levels of government to reduce the inequality of regions. In their opinion if investment in human capital, investment in transportation infrastructure, and FDI became the focus of policy formation, this would lead to higher incomes in the future. They also concluded that policies to promote foreign direct investment in the interior, possibly through the creation of special economic zones, may have a high payoff although they admit this is difficult to prove. While these findings offer some direction as to how the Chinese government should proceed in developing policy, there are still several problems that have hampered the implementation of any such policies. The success of economic zones in the interior region has yet to be realized, however with the pending policies of the Chinese government; the government will soon be able to determine the success of such economic policy in the near future.

In a government paper outlining the strategy for development of the Western region, there is an emphasis placed on priority areas that will have investments first, creating a catalyst for further development in other areas of the Western region. These priority areas will be located along what the paper refers to as “communication arteries” and around pivotal cities with relatively better economic conditions than other areas of the region. Focus is placed on the need to develop economic zones to facilitate the

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<sup>12</sup> The 2020 project: Policy Support in the People’s Republic of China, *Asian Development Bank*, 2002, p.16.



transfer of resources from the primary industry to more industrial uses.<sup>13</sup> I will discuss the Western Region Development Program (WDRP) and its implications, later in this report.

If changes are really going to be realized in an age of the global marketplace, the Western region must determine its competitive advantage in relation to not only other areas of China, but the world. Competitive advantages are those aspects of an economy that are performed better by a certain region in relation to other areas of comparison. For Western China, the competitive advantages within the region can be divided into the three economic sectors: primary, secondary industry, and tertiary sectors. The comparative advantages for the region are strongest in the primary industries. However, this sector, consisting mostly of agricultural and natural resource production will face serious threats from China's induction into the WTO. As other nations look to compete with China, the Western region could lose competitiveness in the production of rice, cooking oil, and cotton. There is no competitive advantage for any area of the region in terms of the secondary industry sector. Having low industrial output can be attributed to the lack of investment into industry. Finally, the Western region has some competitive advantages in the tertiary industry, although not as strong as the primary industry. Tibet in particular has advantages in services such as farming forestry and animal husbandry, education culture and art, and social organizations.<sup>14</sup> With knowledge of what industries the Western region has a competitive advantage; it becomes clearer where investments

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<sup>13</sup> "The Overall Plan of Western Region Development and Related Policy Measures" *China Planning Press*, 2002. pp 125.

<sup>14</sup> The 2020 project: Policy Support in the People's Republic of China, *Asian Development Bank*, 2002, pp 205

should be made to improve upon these advantages. With sufficient investment, there then lies the opportunity for the creation of wealth within Western communities.

### **CHAPTER 3: CHINA'S APPROACH TO DEVELOPMENT**

#### **3.1 Introduction**

The regional development issues facing China are being addressed by the Central government in Beijing. The approach taken by the Chinese involve all areas of the country working together in an effort to bring about increased prosperity in the Western region of the country. Involvement by other provinces and autonomous regions is a strategy that will involve tremendous coordination and cooperation by all parties to ensure that the goals set out nationally are carried out on a local level. In China's Western Development Strategy (WDS) is an attempt (according to the Chinese government) to eventually eliminate regional disparities, unify ethnic groups, ensure boarder security and promote social progress. The national document is the cornerstone in what will be a planned development of the Western region of the country. The blueprint was conceived in accordance to the vision of Deng Xiaoping, former President of China, that ensures the country will continue on its path of capitalist reforms of both the public and private sector and expand its exporting capacity.

The development of such a plan flies in the face of the neo-liberal notion that the state has no place in directing the investments of a national economy. According to neo-liberal theory, the market is the driver of the economy, with government regulation and intervention considered a constraining element on business that restricts growth.<sup>15</sup> China's approach is emerging as a new form of capitalism in which, a carefully controlled integration into the world markets is undertaken. This careful integration helps to ensure that China will not experience similar circumstances that other Asian nations did when de-regulating their industries too quickly, similar to what happened in

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<sup>15</sup> Hunt, Diana. "Economic Theories of Development", 1989. pp 310.

Russia after the collapse of the USSR. Table 3-1 illustrates the difference in imports and exports between the Western and Eastern regions of China. It is obvious from these trade numbers that the Eastern region has a far greater advantage in trade than does the Western region of China.

**Table 3-1: Imports and Exports of Western Region, 2000**

Region	Total Trade (\$ million)	Export (\$ million)	Import (\$ million)	Per Capita Trade (\$)	FDI (\$ million)	Per Capita FDI (\$)	FDI/GDP (%)
<b>PRC</b>	<b>474,296</b>	<b>249,203</b>	<b>225,094</b>	<b>366</b>	<b>40,715</b>	<b>31</b>	<b>2.59</b>
<b>Eastern</b>	<b>436,820</b>	<b>226,878</b>	<b>209,942</b>	<b>889</b>	<b>34,886</b>	<b>71</b>	<b>5.86</b>
<b>Central</b>	<b>20,310</b>	<b>12,398</b>	<b>7,912</b>	<b>49</b>	<b>3,594</b>	<b>9</b>	<b>0.71</b>
<b>Western</b>	<b>17,166</b>	<b>9,927</b>	<b>7,240</b>	<b>48</b>	<b>1,852</b>	<b>5</b>	<b>0.43</b>
<b>Southwest</b>	<b>8,968</b>	<b>5,588</b>	<b>3,380</b>	<b>37</b>	<b>1,359</b>	<b>6</b>	<b>0.47</b>
Chongqing	1,786	996	790	58	244	8	0.65
Sichuan	2,545	1,394	1,151	31	437	5	0.43
Guizhou	660	421	239	19	25	1	0.06
Yunnan	18,128	1,175	638	42	128	3	0.25
Tibet	130	113	17	50	0	0	0.00
Guangxi	2,034	1,489	545	45	525	12	0.96
<b>Northwest</b>	<b>8,198</b>	<b>4,339</b>	<b>3,860</b>	<b>71</b>	<b>493</b>	<b>4</b>	<b>0.35</b>
Shaanxi	2,140	1,310	830	59	288	8	0.66
Gansu	570	415	155	22	62	2	0.20
Qinghai	160	112	48	31	0	0	0.00
Ningxia	443	327	116	79	17	3	0.26
Xinjiang	2,264	1,204	1,060	118	19	1	0.08
Inner Mongolia	2,622	970	1,652	110	106	4	0.37

Asian Development Bank

**Table 3-2: Per Capita Net Income of Rural Households by Region, 1999**

Region	Remuneration (yuan)	Household Business (yuan)	Transfer (yuan)	Property (yuan)	Total (yuan)
<b>Eastern</b>	<b>1,219</b>	<b>1,741</b>	<b>150</b>	<b>60</b>	<b>3,171</b>
<b>Central</b>	<b>508</b>	<b>1,433</b>	<b>75</b>	<b>19</b>	<b>2,034</b>
<b>Western'</b>					
<b>Southwest</b>	<b>394</b>	<b>1,204</b>	<b>104</b>	<b>16</b>	<b>1,718</b>
<b>Northwest</b>	<b>328</b>	<b>1,137</b>	<b>60</b>	<b>18</b>	<b>1,544</b>
<b>PRC</b>	<b>710</b>	<b>1,460</b>	<b>106</b>	<b>32</b>	<b>2,309</b>

China Statistical Yearbook 2000

Planning the economy of China has seen unprecedented economic growth over the last two decades, however this growth has not been shared equally amongst all

regions of the country. The Western region has lagged behind coastal provinces in terms of GDP growth and trade per person. The inequality of incomes between regions can be witnessed by the difference of income in rural households, as seen in Table 3-2. Having a nation divided in terms of the distribution of wealth can be viewed as dangers for governments in power, especially for the Communist Party of China (CPC). Disparity between regions has the potential to ignite civil unrest amongst citizens that believe governments are not working in their best interest. China, being under communist rule, already has underlying issues in regards to their ability to allow individual freedoms, as was seen in 1989 riots at Tiananmen Square. Any discontent that results from regional inequality has the potential to ignite protests against the government, and with the inequality between regions affecting a large number of people, there is the potential for this to occur in China.

The Chinese government appears to have recognized this possibility. With its unveiling of the tenth Five Year Plan (FYP), the government has formally recognized the issue of regional disparity. Within the current FYP that is being implemented from 2001-2005, there is stronger emphasis on the Western regions of China and narrowing the inequality gap between it and the Coastal provinces. The main targets for economic and social development include continuing rapid growth rates of the national economy, restructuring the economy, doubling the 2000 GDP by 2010, and making progress in state owned enterprise development within a modern system. The tenth FYP puts more focus on Western China, therefore if these issues are addressed in that region, it should lead to a decrease of inequality between regions. The increasing viability of enterprise as being competitive is an important concept in the most recent FYP, as it will have significant

consequences for government employees who have been working for state owned enterprises. With an emphasis on stronger growth, both economically and socially, the government has stressed the importance for the industrial structure to be utilized effectively and upgraded, and that China's international competitiveness will be also be strengthened. With a more modern infrastructure and an increased level of urbanization, the Chinese government also plans to control the disparity that is seen between regions of the country.<sup>16</sup>

### **3.2 WRDP's Seven Guiding Principles**

Complementing the tenth TYP is the establishment of the Western development strategy that acts as a guide to implement what must be done to accomplish the goals set out in the current five-year plan. The Western Region Development Program (WRDP) maintains guiding principles that are used to formulate policy development in an effort to achieve greater growth in the Western regions. There are seven guiding principles in this initiative, they include:

*1. Combining the solution of existing problems with the fulfillment of long-term goals.*

The long-term goals include: underdeveloped infrastructure, declining eco-systems, the underdevelopment of science, technology and education and an ineffective industrial structure. Accordingly, the existence of poverty and lower economic growth rate in the Western region can be addressed by looking to what else must be accomplished on a national level. In doing so, the Chinese government will be able to essentially "kill two birds with one stone". The development of infrastructure, improved access to science and education, and stronger industry are key to further

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<sup>16</sup> "The Tenth Five Year Plan". Retrieved on December 12, 2004 from <http://www.china.org.cn/english/features/38198.htm>

economic growth in the Western region. Without an investment in infrastructure, the Chinese government will have difficulty expanding industry in the region. Currently, the Western provinces are difficult to access due to the rugged terrain and displaced communities. With improved infrastructure in place, cities in the region will be better able to attract further investment in industry which will also bring greater investment in technology, science and education that will be required to enhance new firms in the region.

In addition to this, adopting a strategy that recognizes the importance of sustainable eco-systems will also enable China to improve environmental conditions. However, with new industry and the construction of infrastructure it will be difficult for the government to fully address the issue of eco-system degradation. A strategic goal of the Western development plan is to improve the ecological and environmental aspects of the Yangtze River, the Three Gorges, the upper and middle portions of the Yellow River, the Hei River basin and the Tarim River basin. The government wants to address the environmental degradation in specific areas of the Western region and make progress against increasing pollution.

*2. Combine the emphasis on development priorities with the promotion of all-round development.*

Economic and social development projects should be completed in accordance to their priority in regards to the potential benefits they will have on the region and its ability to create additional opportunities in the future. This view by the Chinese for future development in Western China is rooted in the government objective to build infrastructure in the region, which will lead to more investment in the region by the

private sector. The construction projects which will be given priority are in the following fields: infrastructure development such as water conservation, highways, railways, airports, pipelines, and telecommunications; eco-system improvement; agriculture that takes advantage of local characteristics; exploitation and use of energy and mineral resources such as hydropower, high-quality coal, oil, natural gas, copper, aluminum, potassium and phosphorus; urban infrastructure development; tourism that takes advantage of local characteristics; the industrialization of high and new technologies and military technologies converted to civilian use. It is important to prioritize these projects to assist in the organization of projects to be completed. However with such a wide variety of projects to be completed, it may be difficult to organize so that the construction of one project will not interfere with the objectives of others. There must be a high degree of communication between those involved to avoid conflicting development projects.

3. *Combine the role of market forces with the strengthening of macro-economic regulation.*

Market forces are dominant in world trade today. In the process of opening itself up to the outside world, China has cautiously embraced the open market aspects of capitalism. This has meant gradual deregulation of state run industries and a dominant position for China in the export market. With a surplus labour pool, Chinese industry has been effective in manufacturing products at a cheaper price than any other country. The combination of market and state regulation is a dominant theme throughout the strategy for Western development. While the market provides a means to sell products domestically and abroad, state regulation is needed to ensure that priority is given to



support the Western region in its development. Government has a role in this process to create policy that will promote the Western provinces of China for investment.

The opening of China to outside markets has been an ongoing process for the last two decades. Foreign and domestic investors are being encouraged to capitalize on the development of Western China. Infrastructure development and resource development are the two prominent areas in which the government wants open for investment in the region. However, with the investments into the Western region coming from outside the area, there is no guarantee that profits will remain in the region. There has been criticism about the approach to give contracts to businesses from outside the region in which the returns from investment will not be reinvested into the Western provinces. The argument made is that returns from investment will flow back to the Eastern part of China or into foreign countries.

In a move to attract investment, the government is proposing regional tax incentives to be established in the region. The corporate income tax of enterprises that are involved in sectors encouraged by the government should be collected at a reduced rate of 15% from 2001 – 2010. The government also encourages the establishment of new businesses in the region, especially in transport, power, water conservation, postal service, broadcasting and television. Businesses that begin operation in these sectors are entitled to a two-year income tax holiday followed by a 50% reduction in corporate income tax for the three years following the income tax holiday.

#### *4. Combine the increase of economic benefits with the emphasis on social benefits*

Fostering industries where Western China has a competitive advantage is an important component for sustained economic growth, as it will concentrate efforts in

sectors which the region excels at over others. According to the Asian Development Bank, the region is most competitive in the production of primary products. The Chinese government has recognized this within its strategy for Western development citing an importance for the region to industrialize its agricultural sector. Accordingly, there should be more construction of agricultural infrastructure such as the adoption of technology that conserves water conservation for crop production. There is also a desire by the government to build industrial processing plants that will manufacture agricultural products in a value-added process.

The ability for the government to build cities and towns is also a concept that is included in this process. According to the government strategy, the industrialized operation of agriculture should be combined with the construction of urban centers that will facilitate the construction of a processing industry and allow for the movement of surplus labour out of the production of agriculture and into new areas of the economy that will be created by the industrialization process. It is through the development of cities and towns that the government also wants to alleviate the poverty in the region. With more labour moving from the rural countryside to urban areas, there is an opportunity to build infrastructure to meet the needs of these people. The infrastructure that will be created will be superior to that offered in rural areas, therefore increasing the standard of living of migrant workers.

##### *5. Combine the acceleration of economic growth with the promotion of social advance*

The Chinese government hopes that with economic growth there will be more opportunity for the people in the Western region to improve their social stability. The inequality that is present in the country has the potential to alienate the people of Western

China who may rise up against the government and demand for the regime to be changed. The government, not wanting this to occur will promote social benefits to occur alongside the planned growth of the Western provinces. For this to occur in a more rapid fashion, the Chinese government will have to increase the transfer of technology from the East to the West of the country. Adopting new technology is important for the growth of Western China. The ability of the government to transfer new technology to meet the needs of people in the region will help them to address many of the issues plaguing the area. The promotion of technology into the economy will increase productivity of the area which was cited earlier as a prominent reason for unequal growth in Western China.

6. *Combine the support by the Central government with self-reliance and hard work of people in the Western region.*

This principle of development states that the Central government in Beijing will provide support to those in the Western region that adopt the development strategy and work to promote its benefits. The Central government also wants to advance the notion that the development of the Western region is a national priority and therefore, all provinces from the Coastal region should assist in the effort to achieve a more equitable relationship with the Western region. The government also wants the Western region to be more self-reliant in the development of its resources. As infrastructure is built in the region, it is hoped that through the Western strategy, people will use the new investments as a catalyst for further growth in the region. Based on what the Central government has done in terms of investment, the government believes that ultimately, it will be the people of the Western parts of the country that will determine its future.

However, the involvement of investors from the Coastal areas has the potential to create a drain of resources from Western China, without further investment being created.

While investors may be eager to take advantage of certain tax incentives when locating operations in the West, there may be some resistance on the part of the investor to reinvest profits back into the region. It is possible that while the Central government wants to encourage the involvement of businesses from the Coast, the result may be the extraction of resources from the Western region for the sole benefit of companies in the East. The profits will be invested into other areas of the country and not into the region that needs it the most. There will most likely be policy developed to discourage such actions, however it is yet to be seen how effective partners from other areas will be in bringing about support for Western China.

*7. Combine the Western Development Strategy with the development of the Central and Eastern regions.*

Whereas the government's primary goal within the Western Development Strategy is to promote the growth and development of the Western region of the country, it also has the intent to ensure growth is not only allocated to that portion of the nation, but also see improvements in the Coastal and Central regions. The regional economic cooperation that is promoted within the document suggests that each region should place emphasis on its comparative advantage and in doing so work together in promoting economic development for all regions in China. The Western Development Strategy report claims that it should be implemented in accordance to developments in the Eastern and Central regions. The Coastal area will serve as a catalyst for growth in the Central and Western regions, while the Central provinces will play a prominent role in connecting the Western and Eastern regions.

While this principle for development claims that the cooperation of all regions will result in a stronger Western China, it may also be interpreted as nationalist rhetoric.

It may in reality be an effort by the Central government in Beijing to unify the country at a time when regional inequalities have evoked strong sentiment among those who have not benefited from the economic growth of the Coastal provinces. Business leaders from wealthy centers in the East are being encouraged to establish production facilities in the Western portion of the country; however, will there be a consistent level of growth in all regions of the country as a result of this? It is an ambitious and noble target by those who have developed the Western strategy, although it may be difficult to ensure that inequality levels will narrow as all regions of the country advance economically.

### **3.3 Priorities of Strategic Plan**

With the implementation of the WRDP, priority will be given to cities which are deemed central in the further development of the region. These cities are located in areas that have geographic advantages and contain a large population base. The “communication arteries” will be established to facilitate the linking of major cities to form a network of inter-provincial economic zones. These communication arteries include the Asia-Europe continental bridge, the Yangtze River waterway and the routes to the Southwest China sea. The economic zones that will be established are similar to those in the Coastal areas of China. The development program proposes three fundamental economic zones that will be essential in the development of Western China. The first should be located along the western part of Longhai Railway and Lanzhou-Xinjian Railway, the second should be located in the upper areas of the Yangtze River, including the cities of Chongqing and Chengdu, and the third should be located in the Nanning-Guiyang-Kunming area. (See Appendix A for Railway Map)<sup>17</sup>

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<sup>17</sup> Railway Map of China. Retried on December 12, 2004 from <http://www.nordling.nu/schaefer/chinamap.gif>

The use of economic zones is a duplication of what the government strategy was for the Coastal region. Given the geographic location of the Western region, there are numerous factors that must be taken into consideration before determining that economic zones will have similar outcomes as occurred in Eastern China. I will examine the circumstances in the following section.

## **CHAPTER 4: SPECIAL ECONOMIC ZONES AND DEVELOPMENT**

### **4.1 Introduction**

As the Chinese government transformed from a closed economy to one that has become open to foreign investment, there has been considerable discussion on the merits of using Special Economic Zones (SEZs) as a mechanism to promote economic growth and development of a nation. After the economic reforms in 1978, the Chinese government needed to facilitate their integration into the world economic system. The implementation of economic zones began in four locations in 1980. The result has been unprecedented growth for the last two decades. However, while the zones can be credited as a success in integrating China onto the world economic stage, it primarily helped to promote economic activity in the coastal regions of the country. The interior provinces did not grow as quickly and as a result there has become a widening gap between the two regions. The Chinese government is now contemplating the idea of replicating the success in the coastal provinces in the interior region. The issue of SEZ development and its effectiveness in bringing about long term sustainable growth is a contentious subject, with both advantages and disadvantages for its implementation. While economists and business leaders may look at the increasing level of output and trade surpluses as being progress for China, others would argue that the creation of economic zones has had little benefit for the communities in which they are situated. Western provinces have yet to see the fruits that have been created by coastal economic progress. Is it accurate to assume that constructing economic zones in the interior will have similar success that has been experienced on the coast? This question will be examined later; however with the knowledge that has been gained from the initial zones

in the Eastern region, China will have its own experience to learn from when establishing its economic zones in the Western region.

#### **4.2 The Opening of China**

To obtain an accurate picture of the role that SEZs had on the economic development of China, it is advantageous to examine why these zones were first implemented. The SEZs were created by the CPC in 1977 under the direction of Deng Xioping to better foster trade and development with foreign enterprises. Up until this time, China had adopted an import substitution policy; however with the rise of the Newly Industrialized Countries (NICs) such as South Korea, and Malaysia, Chinese officials realized that the key to prosperity was in trading of goods and services internationally. The SEZs were then seen as the catalyst to bring foreign trade investment into the country and a mechanism to implement the economic reforms and open policy led by Deng. They were tested initially to determine the success of economic reforms the CPC was planning to implement. The SEZs were modeled after the Export Processing Zones (EPZs) in South Korea and Taiwan which already had great success. The fundamental objective of the SEZs was to invite foreign investment in various industries with preferential measures and incentives such as preferential tax status to foreign investors, lower tariffs, better infrastructure, more flexible labour markets, and less bureaucratic control. While providing preferential treatment and facilities open for foreign investment and trade, the SEZs symbolized the dramatic turn in policy for the Chinese government.<sup>18</sup>

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<sup>18</sup> Grummitt, Karsten. *China Economic Handbook. Euromonitor Publications Ltd, 1986, pp. 28.*



Initially, four SEZs were set up in 1980. Three of them - Shenzhen , Zhuhai, Shantou – all of which are located in Guangdong Province and one at Xiamen in Fujian Province. A fifth SEZ was installed in Hainan Island in 1988 as a means of promoting economic and social development in what was then a newly formed province. (czfa.org) All of these cities are coastal, and most of them are located near in the southern portion of China. Guangdong is a province located close to Hong Kong, making it an ideal location for economic trade with the then U.K. colony. Chinese government officials were instrumental in the establishment of these economic zones. In China, at the time, and even now, one rationale behind the establishment of these regions was to facilitate the re-integration of Hong Kong, Macao and Taiwan to China. It was important for the Government to reduce the income gap as much as possible between SEZs and these neighbouring areas so as to undertake the integration process smoothly. There were several methods proposed on how the Chinese government set about doing this.

According to a report<sup>19</sup> conducted by Toyo University in Japan, the government attempted to transfer hi-tech industries into the SEZs; experiment with modern technology and acquire management expertise; create employment; earn capital from foreign exchange through the promotion of exports; promote economic development and regional development; create economic links to the domestic economy with Hong Kong (close to Shenzhen), Macao (close to Zhuhai), Taiwan (close to Xiamen) and overseas Chinese communities (Shantou); and experiment with new economic reforms set out by

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<sup>19</sup> The Role of Special Economic Zones in China's Economic Development As Compared with Asian Export Processing Zones: 1979 – 1995. *Toyo University – March 2003*. Retrieved December 12, 2004 from <http://www.czfa.org/documents/The%20Role%20of%20Special%20Economic%20Zones%20in%20China.pdf>

the Communist government, setting-up of a link between the economic hinterland and overseas.

Manufacturing was not the only industry that was encouraged to establish operations in the SEZs. Service industries such as hotels, retail stores, tourist industries; agriculture; housing construction and infra-structural development were all encouraged and open to foreign investment.<sup>20</sup> The promotion of several economic sectors has allowed the Chinese government to experiment its liberalized reforms in areas other than the manufacturing industry. The Chinese population is huge and has a diverse outlook on areas in which to develop. What may be of economic benefit to one region may not necessarily be as encouraging in other areas. It is not surprising that the coastal regions of the country were given preferential treatment when decisions had to be made on the location of such sites. The advantages of SEZs as incubators of economic growth are compounded by their close proximity to the ocean and easier access to foreign markets. As China evolved its more capitalistic form of policy, it changed from an import substitution economy to an export oriented economy. This shift placed increased emphasis on the shipping ports near the SEZs and less on transportation that was available throughout the hinterland. The proximity of China's ports is valuable considering its easy access to Japan, Korea, and the United States. In an export oriented economy, the most lucrative location for economic drivers is on the water. Therefore, it is no surprise that the economic zones created by the Chinese government outperformed the Western regions of the country.

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<sup>20</sup> Ge, Wei. Special Economic Zones and the Opening of the Chinese Economy: Some Lessons for Economic Liberalization, *World Development*, Volume 27, Issue 7, July 1999, Pages 1267-1285.

A high rate of investment went into the coastal cities, creating a larger inequality between the western and eastern regions of the country. Industries that are located here have higher wage employment, delegating the lower wage agriculture oriented labour to the hinterland. In a study<sup>21</sup> conducted in 2002, it was found that a city granted the SEZ status, on average had economic growth increases of 5.5. The study also found that coastal cities benefited from any economic policies associated with SEZs and indicated that there could be influence by the economic zones in bringing foreign direct investment into the Chinese economy. With the lure of lower taxes and cheap labour, SEZs are very attractive for foreign companies to invest. In contrast the inland regions of China have no special status to attract foreign direct investment and therefore cannot compete with the coastal regions for the capital and employment opportunities.

Another study<sup>22</sup> on the effects of SEZs found that the economic performance of these zones is remarkable. The vitality of foreign trade and FDI-related technology transfers have generated a considerable rise in productivity, inducing a growth rate far in excess of the (already very high) national average. Shenzhen, for example, “experienced real growth of 35.5 per cent per annum between 1985 and 1995, while the growth rate for China as a whole was 10 per cent. The extent to which this growth is propagated to neighbouring provinces (through technology transfers and learning by doing), although perceptible, remains limited”. These findings suggest that while the economy within SEZs have grown considerably more during this time period, the effect of development has been contained within the region, and has not had economic repercussions that were anticipated in other areas of the country.

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<sup>21</sup> Jones, Derek, Cheg Li and Ann Owen. Growth and regional inequality in China during the reform era, *China Economic Review*, Volume 14, Issue 2, 2003, Pages 186-200.

<sup>22</sup> “Regional Disparities and Trade and Investment Liberalization in China”, OECD –China Conference. Foreign Investment in China’s Regional Development: *Prospects and Policy Challenges*. 11-12 October 2001, Xi’an, China.

### 4.3 SEZs and Chinas Western Region

As the Chinese government increased investment in economic areas of the coastal cities, the inequality with the Western region has increased. Given the remote location of the Western provinces, will it be possible for the Chinese government to duplicate the success that has been seen in the Eastern region of the country? In a report<sup>23</sup> by the United Nations Conference on Trade and Development (UNCTAD), the authors determine that there will be difficulty for the Chinese government to construct successful economic zones in remote and “backward” regions that lack a significant quantity of skilled labour. They suggest that economic zones should be established in areas that are located close to commercial, industrial or scientific hubs, where the expansion of industrial production is already taking place in a competitive manner.

Having witnessed the success of economic zones in the coastal region of China, the government has the opportunity to learn from its experience to create similar growth in the Western region. However, this may prove problematic given the geographic location and skills of the workforce. The UNCTAD report goes on to suggest policy implementations that could facilitate the integration of economic zones. They include: “1. Targeted industrial development measures should be considered as a development catalyst for the rest of the economy. Innovative public–private sector partnerships should be promoted. The Government can provide infrastructure, but facilities and basic services in the economic zones should be administered by the private sector. 2. The successful promotion of industrial zones necessarily involves a wide range of complementary

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<sup>23</sup> Policy options for strengthening SME competitiveness, December 2003, UNCTAD, pp 10. [http://www.unctad.org/en/docs/c3d58&c1\\_en.pdf](http://www.unctad.org/en/docs/c3d58&c1_en.pdf)

factors such as business development services, human resource or skills development, finance and technical assistance including that necessary to upgrade technology. 3. The interaction between the local industry and the local community as a whole is very important in order to generate positive externalities. Industrial zones must include local firms from a number of sectors so as to boost interaction with the main tenants and achieve external economies.”<sup>24</sup>

The Chinese government is encouraging infrastructure development in the Western region; however, will the construction of roads and buildings be sufficient in attracting foreign firms to the Chinese hinterland? The geographic location of the Western provinces has put it at a disadvantage in the past for attracting FDI and has also prompted the Chinese government to overlook the development of SEZs in the region. Now that the government has recognized the inequality within its borders as a hindrance to overall growth, the perceived benefits of SEZs and the success it has seen in the coastal regions in terms of economic growth and output are thought to be transferable to the Western region. The practice of lowering taxes has been beneficial in the Eastern region because of the lower cost to export goods from that location, however, as industry moves inland, it is presented with challenges that will add considerable costs to the overall production of goods. While the Chinese government hopes to increase infrastructure development in the Northern and Western borders, there is scepticism that the use of railroads as a link to European and Russian markets will provide considerable influx of capital and technological enhancements. The OECD Conference on “Foreign Investment in China’s Regional Development” has stated in a policy document that tax

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<sup>24</sup> Policy options for strengthening SME competitiveness, December 2003, *UNCTAD*, Retrieved on December 12, 2004 from [http://www.unctad.org/en/docs/c3d58&c1\\_en.pdf](http://www.unctad.org/en/docs/c3d58&c1_en.pdf)

measure of such magnitude that has been witnessed in SEZs also “generate major distortions, (and) can hardly offset the comparative disadvantage of geographic isolation (of Western China)”.<sup>25</sup>

Aside from the geographical disadvantage that plagues the Western region, there is also the high dependency on primary production of natural resources that exists within the economy. Having abundant natural resources is a tremendous opportunity for the Western provinces; however, the extraction of primary goods is only the beginning of the production process and does not produce significant value-added benefits for the region. The Western Region Development Strategy, as well as the Asian Development Bank has indicated that the Western region should concentrate on the production of primary products. However, the SEZs that are located in the Coastal regions have been dominated by manufacturing enterprise and other businesses in the secondary and tertiary industries which rely on low cost labour.<sup>26</sup> With the implementation of SEZs in the Western region, the government will be encouraging the growth of several sectors simultaneously, having incentives for resources extraction and the production of goods and services in SEZs.

#### **4.4 Infrastructure Projects**

Will the government be effective in encouraging economic growth in both sectors of the economy, and will it be able to provide the necessary infrastructure to ensure that development goals are met? These are issues that will dominate the growth of Western China, as its economy adopts neo-liberal growth models, and opens itself to investment and trade with its neighbours.

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<sup>25</sup> “Regional Disparities and Trade and Investment Liberalization in China”, OECD –China Conference. Foreign Investment in China’s Regional Development: *Prospects and Policy Challenges*. 11-12 October 2001, Xi’an, China.

<sup>26</sup> Song, Jung-Dong. “The Special Economic Zones of China and Their Impact on its Economic Development”. *Praeger*. Westport, 1997, pp 197.

The development objective of the Western region has been to build the infrastructure necessary to facilitate the growth in economic development and the development zones that will be established there. In accordance to this plan, the Chinese government has announced several projects that will enhance its ability to achieve Western development goals. These initiatives include expanding the transportation system, energy generation in key areas, and increasing human resources and skill level of workers.

The Office of the Leading Group for Western Region Development of the State Council is an agency that has been put in place to facilitate the policy initiatives that were developed in the Western Region Development Program. The agency has been guiding the implementation of policy, infrastructure construction, ecological protection of the region and establishing the workforce that will participate in the new development strategy. Many projects have already been approved by the government and have started construction. One example of a project that will expand the transportation system is the construction of a new railway line that will start from Jinghe station on the western section of Lanzhou-Urumqi Railway Line, advance west toward the northern foot of Tangshan Range, stop at Yining City and terminate at Korgas, a state-level trade port on Chinese -Kazakhstani border. The new railway line, with a designed length of 295.73 km, requires construction of 220 bridges, 902 culverts, and 32 tunnels at a cost of 6.2 billion Yuan (about 747 million US dollars). It will take three years to complete.<sup>27</sup> The extension of this rail route is an infrastructure project that will advance the priority of the Chinese government to create an economic zone along the western part of Longhai Railway and Lanzhou-Xinjiang Railway. Enhancing the

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<sup>27</sup> The Office of the Leading Group for Western Region Development of the State Council. "China Constructs new Railway Trunk in Northwest Region". <http://www.chinawest.gov.cn/english/asp/start.asp?id=d>. Retrieved on November 9, 2004.

capability of the rail line to transport goods further west to the Chinese borders is an important aspect of the development plan. With the improved transportation link, the ability to export goods to neighbouring countries will increase, creating opportunities for provinces in the Western region that would not be available otherwise.

Another project that will begin construction in accordance to the priorities of the development program is four new hydropower plants that will be constructed on the Jinsha River in the upper reaches of the Yangtze River. The hydropower plants will have a combined generating capacity of 38.5 million kw and located on the middle and upper reaches of the Jinsha River. They will be developed by the Three Gorges Project Development Corporation, the developer of the famous Three Gorges Project being built in the middle of the Yangtze. Two of the four power plants, Xiluodu and Xiangjiaba hydropower plants, have been approved by the central government and will start construction next year. According to the Office of the Leading Group for Western Region Development of the State Council, the provincial government of Yunnan recently drafted a letter of intent seeking cooperation with the Three Gorges Project Development Corporation. The government hopes to turn the middle and upper reaches of Jinsha River into the country's largest energy base, which will “send power from the energy-rich but economically-poor western China to economically developed eastern areas”.<sup>28</sup> Improved power generation is another step by the government to improve the competitiveness of Western cities, such as Chengdu and Chongqing, which are priority areas for the Western development plan.

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<sup>28</sup> The Office of the Leading Group for Western Region Development of the State Council. “More hydropower plants to be built on Yangtze upper reaches” <http://www.chinawest.gov.cn/english/asp/start.asp?id=d>. Retrieved on November 9, 2004.



These infrastructure projects that are being implemented in accordance to the Western Region Development Program provide tangible examples of how the Chinese government has shown commitment to improving the export potential of the region and linking the rural provinces of Western China to the Eastern and Central regions of the country. While investments of large sums of money and the creation of many new jobs will be beneficial for the West, the primary reason for the improved economic conditions could be to enhance the ability to extract resources for Coastal cities to obtain the natural resources that are needed for continued growth and development of Eastern industry. The development of China as a whole is a government objective, however if political pressures from Coastal cities are to enhance their own welfare, the Western region may not obtain the full benefit for the resources it holds.

**CHAPTER 5: ACOA MODEL FOR WESTERN CHINA****5.1 Introduction**

Having considered the regional inequality that has widened in China, it is the purpose of this report to compare the situation in that country with that of Canada and its Atlantic region. The approach to regional development that China has pursued has relied on a government led strategy that dictates what infrastructure and services will be established in the region. Analyzing the Canadian experience will illustrate the similarities and differences that exist between the two areas. At first glance it does not seem that the two areas have much in common. The fact is that Western China is a less developed region in a developing country, where its citizens are faced with what may seem like insurmountable poverty and exclusion from the benefits that have been bestowed on other regions of the country. In comparison, Atlantic Canada may be a less developed region in Canada; however it is located in one of the wealthiest countries of the world. Canada has consistently been rated one of the best countries to live in by annual UNDP Human Development Index (HDI) reports.<sup>29</sup>

While there is a vast difference between Atlantic Canada – being located in a developed country and Western China – being located in a developing country, there are similarities to the underlying economic factors that have prevented these regions from developing at a similar pace as other regions of their countries. Both have historically experienced higher rates of unemployment and have seen younger generations leave the regions in search of a more prosperous future in other areas of their country. The out-migration of citizens and the lack of immigration into the regions have had a similar drain

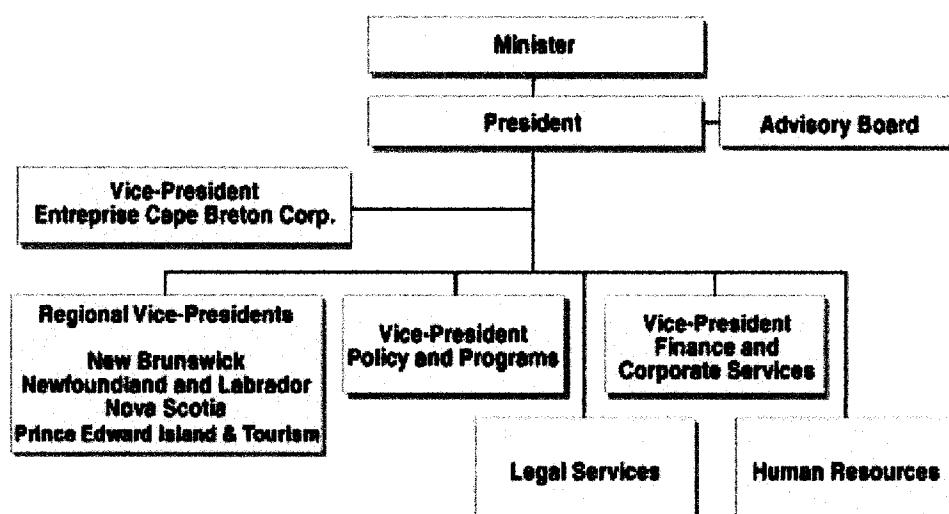
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<sup>29</sup> “Canadian Immigration Center.” Retrieved on December 12, 2004 from [http://www.canadaimmigrationcenter.com/destination\\_canada.html](http://www.canadaimmigrationcenter.com/destination_canada.html)

on the resources available to the populations of both regions. Western China has not experienced similar levels of growth that have been attained by coastal regions because there are fewer opportunities for business and government to invest in the region.

A similar trend has been occurring in the Atlantic region of Canada. The federal government, in an attempt to address the growing inequality between Atlantic Canada and the remainder of the country, created the Atlantic Canada Opportunities Agency (ACOA) as a mechanism for change in the region. The primary purpose of ACOA is to work in partnership with the people of Atlantic Canada to increase the economic prospects of the region for the future. ACOA is administered in Ottawa and its Atlantic headquarters in Moncton, New Brunswick. From these heads of operation come the directives on policy and implementation procedures. The programs are then delivered by branch offices in local communities around Atlantic Canada and a specific program designed for development in Cape Breton, known as Enterprise Cape Breton Corporation (ECBC).

**Figure 5-1: Hierarchical Chart of ACOA**



The strategy of ACOA has been to offer services and programs within the Atlantic Canada region as a source of incentive for individuals and businesses to enhance their earning capacity and improve the economic structure of the region. The agency is involved in many aspects of business endeavours – from providing financing and advice for start up businesses, to providing loans for businesses that are expanding. Infrastructure development within communities is also promoted through the programs developed by ACOA. Having modern infrastructure in the region will accommodate growth in business, and will present opportunities for growth and expansion in the region that would otherwise not be available. ACOA's focus is on the facilitation and growth of Small and Medium Sized enterprises (SME), in an attempt to create an environment in the region that is more fertile for entrepreneurs.<sup>30</sup> ACOA's predecessor was DREE, another development agency initiated by the federal government to address economic inequality in Atlantic Canada.

ACOA's Head Office, located in Moncton, is comprised of the President's Office, Policy and Programs, Finance and Corporate Services, Legal Services and Human Resources. In each provincial capital in Atlantic Canada, regional Vice-Presidents are responsible for the delivery of ACOA programs. In Sydney, Nova Scotia, the Vice-President of Enterprise Cape Breton Corporation ECBC is responsible for delivering ACOA's programs in Cape Breton. Each Vice-President is equipped with delegated authorities from the Minister to approve most projects and proposals. Through its Ottawa office, ACOA advocates on behalf of Atlantic Canadians in the development of national policies and programs, as well as assisting the region's entrepreneurs in the procurement of government contracts. ACOA legislation provides for an ACOA Advisory Board. The

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<sup>30</sup> <http://www.acoa.gc.ca/e/about/build.pdf>

Board is composed of the President of ACOA and seven other members who represent all areas in Atlantic Canada.<sup>31</sup>

While ACOA itself claims that the work it has been doing since its inception has benefited the economy of Atlantic Canada, there are critics that claim the agency has distorted the market by providing loans and grants to business and essentially picking winners and losers in the region. The Atlantic Institute for Market Studies (AIMS) claims that ACOA has interfered in the operations of efficient business in the region. The institute prefers tax cuts to agencies such as ACOA since a tax system approach automatically eliminates political interference because it benefits only companies that actually make money. The claim that ACOA loans are politically motivated was the subject of a study conducted by the C.D. Howe Institute of Montreal suggests that politics and ACOA go hand in hand. Much of the decision-making that involves the spending of millions of dollars is politically motivated. Also, the study found that spending is disproportionate in ridings that government members represented. The study concluded that since 1994, a year after the Liberals took office, spending in ridings held by members of the governing party was on average 40 per cent higher than in opposition ridings.<sup>32</sup> Similarly, a study was conducted on regional development agencies within Canada and their political influences. It found that those ridings that had a member of the government received \$65.86 in per capita spending each year, compared to \$48.58 in opposition ridings. In addition to this, the study also found that ridings that were

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<sup>31</sup> <http://www.acoa.gc.ca/e/library/reports/atip2002-2003/section1.shtml>

<sup>32</sup> <http://www.aims.ca/regionaldevelopment.asp?typeID=4&id=879&fd=0&p=1>

represented by cabinet ministers received \$78.88 per capita, compared to \$60.99 per person in government backbenchers' ridings.<sup>33</sup>

## **5.2 ACOA Priorities**

To facilitate the growth of small business and infrastructure development in the region, there are six priority areas that will enhance future development. These six priorities are: policy, advocacy and coordination; innovation and technology; trade, tourism and investment; entrepreneurship and business skills development; community economic development; access to capital and information. These priorities help shape the programs and guidelines that have been established since the inception of the agency. With the priorities established ACOA has been able to focus its approach to development in the Atlantic Canadian region to promote only those programs that meet the criteria within each priority. The reasoning and focus of each priority gives the bureaucracy more defined criteria as to what projects should obtain funding and why others need to be refined or changed to meet the criteria that has been established, before funding will be delivered.<sup>34</sup>

The priorities for ACOA are outlined in the document “Building a 21<sup>st</sup> Century Economy Together”. Within this document there is an outline for each priority and how it is to be adopted in the ACOA model. The reason for a priority on policy, advocacy and coordination is that the federal government believes relevant and effective government action in Atlantic Canada requires the best and most current research and information on the specific economic challenges and opportunities facing the economy of the Atlantic region. According to the government, ACOA has a legislated mandate to advocate for

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<sup>33</sup> <http://www.chass.utoronto.ca/~floyd/newsletter/newnews.html>

<sup>34</sup> <http://www.acoa.gc.ca/e/about/build.pdf>

Atlantic Canada's interests, priorities and concerns in federal government policy making, program design and direct investments. The focus of this priority is that ACOA carries out a policy and research agenda that is based on comprehensive regional experience, information from economic development stakeholders and partners, and a growing body of research and consultation. The approach focuses on emerging regional, provincial and local economic issues; structural conditions within the Atlantic region; sector-specific considerations; key federal policies and ACOA's own priorities and program initiatives.

The priority on innovation and technology is important for Atlantic Canada. Innovation and technology enables companies and individuals the ability to work more efficiently and be more productive with their time. The reason that ACOA has deemed this a priority is that companies create jobs and new opportunities for businesses faster and more successfully if they incorporate new technology into their production. If Atlantic Canada can build an environment in which companies are being innovative and developing new technology, the region will be better positioned to be competitive in the global economy. Specifically, the Agency focuses on improving the region's capacity to carry out leading-edge research and development; facilitating the commercialization of new technologies; helping companies adopt the latest technologies and upgrade their technology skills; and encouraging partnerships and alliances among private sector firms, universities and research institutions.

The expansion of trade as a catalyst for economic growth, increased mobility of people and capital, has prompted ACOA to prioritize its efforts in the area of trade, tourism and investment. According to ACOA, every \$1 million in increased export value results in 11 new jobs for Atlantic Canadians. At the same time, increased foreign direct

investment accelerates the development of new commercial opportunities and industrial infrastructure necessary to create a critical mass of business expansion. Capitalizing on the region's tourism potential both promotes Atlantic Canada abroad in important markets, and provides significant employment and business opportunities at home. Using trade, tourism and investment as a means to enhance economic growth in the region, ACOA works with its participants in export related sectors. The partnership between the federal agency and private business promotes export activity in Atlantic Canada by focusing on export awareness and training, market information and intelligence, financial assistance for export development, and international business development. ACOA's investment strategy is working towards positioning Atlantic Canada as a location of choice for foreign direct investment. Investment activities include research, promotion, intelligence gathering and dissemination, and investment partnerships. Tourism is important to the economy of Atlantic Canada, as it is in Western China. However, in Canada, it primarily offers seasonal employment. The tourism strategy for ACOA involves working with the provincial governments of Atlantic Canada and several important industry stakeholders to develop the region into a world-renowned tourist destination.<sup>35</sup>

Entrepreneurship and business skills development is another priority in which ACOA has determined to be important for sustainable growth in the region. SMEs have the potential to create many new opportunities for the region, and supporting their efforts will enhance the ability for entrepreneurs to start their own businesses. Investing in the development of existing and potential entrepreneurs is fundamental to ensuring that

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<sup>35</sup> <http://www.acoa.gc.ca/e/about/build.pdf>



business start-ups and expansions will continue to contribute to the Atlantic Canadian economy. Enhancing business management skills in SMEs increases business survival, growth and productivity rates. The focus ACOA has developed when dealing with SMEs is to promote continuous learning of business people, as a means to expand knowledge and increase awareness of opportunities that are available. In particular, the agency has implemented programs to attract young people and women into entrepreneurial activities. Increasing knowledge and skills is viewed by ACOA as essential for the continued viability of small enterprises in the region.

In Atlantic Canada, there is a strong sense of community that has been present for generations. This is especially true in the rural areas, where community development can have a significant impact on the livelihoods of small villages. The long-term economic health of Atlantic communities is essential to the long-term health of the regional economy in general. If strong regions make for a strong nation, then strong communities make for a strong region. ACOA's mission with respect to Community Economic Development is to help communities plan and implement their own individual visions for long-term, self-sustaining economic activity. The agency works with its regional and local partners to: support counseling and financial services for entrepreneurs; improve the availability of business capital in rural areas; create sustainable jobs; strengthen the strategic planning process; and to empower each community to successfully direct its own future.

While supporting the skills of entrepreneurs, it is also essential that business people have access to capital that will promote expansion. However, some businesses have difficulty obtaining capital from traditional sources such as banks. The government

of Canada has recognized access to capital as an obstacle for Atlantic Canadian business. Prioritizing access to capital and information, ACOA has illustrated its commitment to SMEs. According to the agency, SMEs are the engines of growth in the Atlantic economy, generating nearly 60 per cent of all new jobs. Therefore, support for their start-up, expansion, and modernization is crucial to the overall health of the Atlantic regional economy. ACOA helps address the most critical financing needs of small and medium-sized enterprises by making available interest-free loans for business start-ups, expansions and modernizations as well as for investment in new technology, software, prototype development, staff training, export development, and quality improvement measures. These investment areas, which are fundamental to a business' continued competitiveness, often do not meet either the risk requirements of commercial lenders, or the size requirements of venture capitalists. ACOA is in the position to help fill the gap. The Agency also helps bridge the flow of business information to Atlantic entrepreneurs by providing a client-centred business information network through the Atlantic Canada Business Service Centres and other support organizations.<sup>36</sup>

### **5.3 ACOA Programs**

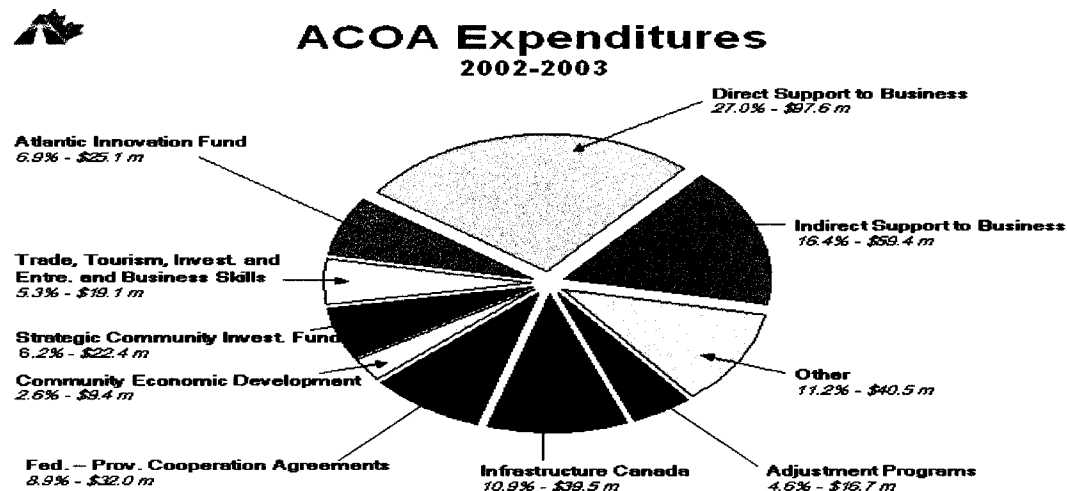
The priorities of ACOA have directed the agency in the creation and implementation of programs to address economic issues that have been deemed important in its priorities. The programs that have been created include the Business Development program, Atlantic Investment Fund, Strategic Community Investment Fund. These programs have transferred the capital provided by the federal government through ACOA, to small business owners and community organizations. The availability of these

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<sup>36</sup> <http://www.acoa.gc.ca/e/about/build.pdf>

programs has enhanced the opportunity for small business owners to expand their enterprise and allowed young entrepreneurs the chance to explore their business ideas. The expenditures for the year 2002-2003 illustrate that a large percentage of the departments spending went towards support for small businesses.

**Figure 5-2: ACOA Expenditures**



[www.acoa.gc.ca](http://www.acoa.gc.ca)

### *Business Development Program*

The Business Development Program (BDP) helps entrepreneurs by providing financing to them for the initial investment, expansion of operations or to modernize their business. This normally involves the construction, purchase or installation of buildings and equipment; but may also include working capital, training, studies or marketing. Loans are interest-free and unsecured, and are provided especially for those projects considered critical for competitiveness, but are often considered to be too risky for conventional loans from banks. ACOA has made entrepreneurship and business skills development a priority of the agency. The BDP assists those businesses that have a business plan and ideas that have the potential to promote enhanced growth for the

Atlantic Canadian economy in the future. The level of financial assistance depends on the nature of the start up or expansion.<sup>37</sup> (See Appendix B for list of projects eligible for financing). The maximum level of assistance under ACOAs Business Development Program is 50% of eligible costs for start-ups, expansions, and modernizations; and 75% of eligible costs for activities such as studies, marketing/trade, innovation, training, and quality assurance.

#### *Atlantic Investment Fund*

The Atlantic Innovation Fund (AIF) is a \$300-million, 5-year program designed to strengthen the economy of Atlantic Canada by accelerating the development of knowledge-based industry. The AIF will increase the ability for the region to attract researchers and promote research and development by the private sector that will contribute to a knowledge and technology based economy in Atlantic Canada. Innovation and technology are seen as key to progress of the economy with the work of both the private sector and universities in the region. The opportunity to conduct research within universities, then to transfer that knowledge to the private sector for commercial production is a strategy for ACOA. In doing this, it is believed that Atlantic Canada will attract private firm investment in the region, and assist universities in attracting academics to conduct their research. The combination of financing both institutional and private organizations has led to a high level of investment in the region to conduct research. Examples of this include \$1 Million funding to the University of New Brunswick for the project “Beyond Kyoto: Atlantic sustainable Power R&D

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<sup>37</sup> <http://www.acoa.gc.ca/e/library/bdp.pdf>

Initiatives” and \$1.5 Million to Acadian Seaplants Limited that developed extracts from marine plants for the agri-food industry.<sup>38</sup>

#### *Strategic Community Investment Fund*

The purpose of the Strategic Community Investment Fund (SCIF) is to build a stronger economic and infrastructure base for communities in Atlantic Canada, particularly those in rural areas. The program is funded with \$135 million over five years. Assistance is non-repayable, and each project will be assessed on funding level based on the necessary funding that is required for the project to be completed. Projects that are eligible for funding include non-commercial/not-for-profit organizations such as local development associations, municipalities and their agencies, business or technology institutes, industry associations, economic development associations, universities, educational institutions, local cooperatives or other business entities undertaking not-for-profit initiatives.<sup>39</sup> An example of a project that has been approved for funding through SCIF is the upgrading of a wharf at an industrial park site at Trepassey, Newfoundland for \$121,983 in June 2004.

#### **5.4 Work Experience at ACOA**

While working with ACOA in Ottawa, one of my responsibilities was to examine the BDP and SCIF programs for possible funding alternatives. In my investigation I began to recognize the wide variety of projects that ACOA has been involved. Working with files associated to the loans has provided me with a great deal of information on what process is followed in the implementation of these programs, and what types of projects have been successful in obtaining funding. As a regional development agency, it

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<sup>38</sup> <http://www.acoa.ca/e/financial/aif/prolist2.shtml>

<sup>39</sup> <http://www.acoa.ca/e/financial/SCIF.PDF>

is the responsibility for officials at ACOA to provide assistance to individuals and groups that have a common goal to expand the economic outlook of the region. The programs that have been established in my opinion have given opportunities in the region that otherwise would not have occurred. In contrast to the belief of neoclassical economics, the assistance that the government provides to the region has influenced a shift in the economy that is more diversified and attractive to future investment. While those who are sceptical of the effectiveness of ACOA may call for a tax cut for the region, how effective would a tax cut be if there is little infrastructure available in the region to attract business to the Atlantic region? A tax cut is most effective when there is already established companies in the area that can use capital savings for future investment.

The research that I have conducted while in Ottawa made me realize that ACOA has provided loans to many individuals, organizations, and institutions. The research and development that has been conducted in universities and in the private sector are the beginning of what has the potential to be a promising future for the region in a knowledge based economy. In PEI, with the assistance of ACOA loans, a number of firms in the Aerospace industry have located to the Western part of the province in the early 1990's. Today, the aerospace industry is the fourth largest industry in PEI behind the traditional industries of farming, fishing, and tourism.<sup>40</sup> In my opinion a diversified economy that incorporates technology and knowledge will provide a more secure future for business and citizens in the region and offer an alternative to those who believe they must go elsewhere to pursue their professional work.

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<sup>40</sup> <http://www.peibusinessdevelopment.com/index.php3?number=63293>

**CHAPTER 6: CIDA'S ROLE IN CHINA****6.1 Introduction**

The Canadian International Development Agency (CIDA) is the Government of Canada's agency to advance Canada's Overseas Development Assistance (ODA) to developing countries. Similar to ACOAs responsibility to Atlantic Canada, CIDA is provided funding to advance development in the international context. The priorities of CIDA are to encourage basic education, economic well being, environmental sustainability, and governance in the poorest countries in Africa, Asia, and Latin America. The work of CIDA is a mechanism to deliver programs and services to developing countries as a means to reduce poverty and hardship in these nations. While other government agencies concentrate on foreign relations and trade as a means to develop economic relations with the rest of the world; through CIDA, Canadian citizens and organizations can participate in the efforts of the organization to assist people in poor countries.

**6.2 CIDA in China**

The role that CIDA has for implementing development strategies in China is another issue that has come to the forefront in this report. CIDA's objectives and goals in China are crucial to the research of this report. Depending on what policies are in place within CIDA, the analysis that will be carried out in the report will hinge on whether CIDA works on issues pertaining to regional development, and more specifically regional development in Western China. Also, the objectives of CIDA must be compared to that of the Chinese government and its Western Region Development Program to determine if there are similarities between the two. If there are similar goals to reduce the inequality

between the Eastern and Western regions of China, then the proposal of programs that reduce inequality will be possible. However, if there is no similarity between the two countries, and no hope for collaboration on Western Development, then the prospect for cross country examination is pointless.

When examining CIDA's presence in China, it is important to look at the objectives and goals set out specifically for China. The overall approach to development in China by the agency can be found in the China Country Development Programming Framework: 2004-2009 (CDPF). The CDPF recognizes the regional imbalance that has intensified since China's economic reforms and will work with the Chinese government to address development issues. With a quarter of the world's population, China is confronting many development issues ranging from environmental degradation to poverty to regional inequality. Canada has committed itself to working with Chinese officials that will see increasing focus placed on Canadian expertise transferred to China.

Since the 1980s the two countries have held a development cooperation program that has linked Canadian aid to China's development priorities. The cooperation program involves many Chinese and Canadian partners including government agencies from central, provincial, and local levels, public and private sector enterprises, academic institutions, as well as community-based and civil society organizations. According to the CDPF, the goal of CIDA's work in China is to "To contribute to sustainable development and poverty reduction in China through support for equitable growth, environmental sustainability, and human rights, democratic development, and good governance, in accordance with Chinese government development strategies and the Millennium



Development Goals.”<sup>41</sup> Similarly, the objective of CIDA's work in China involves three aspects: 1) equitable growth, 2) environmental sustainability, and 3) human rights, democratic development, and good governance as important aspects when working in China. All three pillars within CIDA's objective reflect the need for working with the Chinese government to improve conditions in Western China. A closer examination of CIDA's CDPF<sup>42</sup> reveals that there is a realization by CIDA that developing Western China and regional development is a central concept that must be addressed to reduce poverty and inequality in China.

Support for equitable growth, especially in Western China, is a promising component of CIDA's objective for China. The agency's programs are being developed to assist those in rural areas of China in receiving benefits from the tremendous economic growth that has been witnessed in China. Such programs, if done in collaboration with the Chinese government will contribute to an overall effort to increase living standards in the Western region of China and establish stronger links between the two countries. The objective of addressing equitable growth will result in the transfer of Canada's expertise on skill development and enhancing economic opportunities for the rural poor. An emphasis will be placed on helping China to increase the effectiveness of its Rural Poverty Reduction and Development Program and skills training systems (agricultural extension and vocational training) through improved targeting of fiscal resources,

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<sup>41</sup> Canadian International Development Agency “China Country Development Programming Framework (2004-2009) <http://www.acdi-cida.gc.ca/CIDAWEB/webcountry.nsf/VLUDocEn/China-ProgrammingFramework>

<sup>42</sup> Canadian International Development Agency “China Country Development Programming Framework (2004-2009) <http://www.acdi-cida.gc.ca/CIDAWEB/webcountry.nsf/VLUDocEn/China-ProgrammingFramework>

enhanced access to poverty programs and training for poor women and men, and increased relevance to the needs of the poor.

Potential areas of Canadian expertise that could be of value to China in improving the effectiveness of these systems include fiscal equalization, labour mobility, the design and management of skills training systems, program management, monitoring, and evaluation, and participatory planning and decision-making. It is anticipated that the provision of this expertise will help China to enhance the employment seeking skills and entrepreneurial capacity of the poor and will be supportive of aspects of China's Western development strategy including the facilitation of increased agricultural productivity and income, off-farm employment, and rural small town development.<sup>43</sup> In facilitating expertise to the Chinese development strategy, the Chinese government and those involved with the development projects can use the information in a manner that best suits their own objectives and goals within the region.

The performance measurement strategy for CIDA when evaluating program effectiveness is to be based on the expected results before implementation. In relation to the objective of equitable growth, CIDA's expected results are stated within three criteria: impact, outcomes and output. The expected impact of CIDA programs in China is to reduce inequity through enhanced economic opportunities for poor rural women and men in western regions of China. The expected outcomes include increased farm productivity and income for poor rural women and men in western regions, increased off-farm employment for poor rural women and men in western regions, and reduced land degradation in rural western regions supportive of equitable growth. The outputs consist of improved agricultural extension systems for poor rural women and men in western

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<sup>43</sup> <http://www.acdi-cida.gc.ca/CIDAWEB/webcountry.nsf/VLUDocEn/China-ProgrammingFramework>

regions, improved vocational training systems for poor rural women and men in Western regions, and improved rural poverty reduction and development program providing skills training, basic infrastructure, and credit to poor rural women and men in Western regions.

Environmental sustainability is the second objective for CIDA in China. The CDPF strategy encourages support of Chinese programs that manage environmental issues that are linked to rural poverty issues in Western China. Environmental sustainability is also a priority within the Western Region Development Program that is being implemented by China. Working in collaboration with the Chinese on environmental sustainability will assist the Asian country to curtail environmental degradation and also promote growth in rural areas of Western China. The programs that CIDA will implement under the CDPF will emphasize the ability of China to enhance its land resource management systems through enhanced management capacity, increasing the level of coordination, and increased participation of women and men at the community level. Areas in which the Canadian government sees that its expertise could be beneficial to China include land-use planning models, interdepartmental and intergovernmental coordination, agricultural extension systems, program management, monitoring, and evaluation, and participatory watershed management planning and decision-making processes.<sup>44</sup>

The performance measurement strategy that is used by CIDA for environmental sustainability also refers to its impact, outcomes and outputs. The impact for performance measurement is enhanced land resource management that supports sustainable development and poverty reduction in rural areas of Western China. The outcomes of this include reduced land degradation in rural Western regions, improved

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<sup>44</sup> <http://www.acdi-cida.gc.ca/CIDAWEB/webcountry.nsf/VLUDocEn/China-ProgrammingFramework>

land rehabilitation in rural Western regions and increased farm productivity and income for poor rural women and men in Western regions. The outputs can be measured in terms of improved agricultural land resource management in rural western regions and enhanced participatory watershed management processes in rural western regions.

Human rights, democratic development and good governance are the third priority of CIDA's CDPF strategy for China. Canada's role for China in this regard can include the experience Canada has undergone as a democratic nation. The rule of law that has been developed in Canada and the institutions that have been established to implement the rules of governance over the Canadian population can offer insight for Chinese law makers on how best to reform their judicial system. The experiences in which CIDA believes that Canada can be most helpful include the management of judicial institutions, legal aid systems, the role of bar associations, legislative consultation processes, and the implementation of international trade arrangements (WTO), environmental conventions as they relate to land resource management, and other international covenants related to human rights, democratic development and good governance.

Concerning performance measurements for human rights, democratic development and good governance the desired impact for programs are strengthened rule of law and implementation of international instruments, to which Canada and China are parties, supportive of equitable growth, environmental sustainability, and human rights, democratic development, and good governance in accordance with Chinese government development strategies and the Millennium Development Goals. The outcomes of programs will include an enhanced role of legal, judicial, and legislative institutions, the increased implementation of international instruments related to human rights (including

women's rights), the increased consideration of equity in the implementation of international economic agreements, and increased implementation of international environment agreements related to land resource management. The outputs of programs to be implemented are increased capacity of legal, judicial, legislative, and government institutions to contribute to the rule of law. Also, increased institutional capacity to implement international economic, environmental, and human rights instruments in accordance with Chinese government development strategies and the Millennium Development Goals will be components of a desirable output for CIDA programs in China during the CDPF timeframe.<sup>45</sup>

### **6.3 Private Sector Development**

The CDPF may relate specifically to CIDA's objectives and goals in China, however there are other objectives within CIDA that relate to promoting development in Western China. Sustainable economic growth is an overall objective of CIDA programming. It is a concept that promotes economic growth that minimizes damaging effects to the environment so that it can be protected as much as possible. CIDA supports the initiatives that are concerned with sustainable growth and with the encouragement of the business community the agency hopes to create a movement of sustainable development in poorer nations. Private Sector Development (PSD) policies within CIDA are to create decent jobs and sustainable living for the poor by helping markets function efficiently, by stimulating the growth of the local private sector in developing countries and countries in transition. The partners for CIDA programs in PSD include the private sector, business associations, the cooperative movement, and civil society (including not-

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<sup>45</sup> <http://www.acdi-cida.gc.ca/CIDAWEB/webcountry.nsf/VLUDocEn/China-ProgrammingFramework>

for-profit organizations and educational institutions) in Canada and overseas, as well as multilateral institutions and other donors.

Prominent in the PDS strategy for CIDA is the role of SME businesses in their communities. For SMEs to become established in the policies of sustainable development, they require access to capital and business development services, especially for women entrepreneurs who otherwise would not receive any assistance. CIDA's support for SME development and involvement of the private sector will offer support for farmers, producers, marketing, and financial cooperatives, improved market and communications linkages, distribution systems, supply chains, and supplier development. In addition to this support will be the integration of environmentally sustainable technology that will reduce pollution levels in developing countries. The PSD strategy is to promote the small business sector and illustrate to small business owners the advantage of developing processes that can maintain the environment and profits of their business.

Other results that are desired in the PSD strategy include accountable private and public institutions to support local and nationally competitive markets. The neo-liberal approach to the competitiveness of business markets in developing countries can be achieved, according to CIDA, by enhancing the abilities of business, and professional associations that promote networking amongst business people in similar sectors. Institutions and organizations that facilitate the educational process for small business owners is an important component in the overall project. The ability for labour and trade unions to develop within businesses as a means to promote workers rights and other initiatives to ensure a safer workplace is included in the PSD strategy as a desired result as programs are implemented. The result that CIDA hopes to achieve by supporting a

local and nationally competitive market requires the promotion of supply-chain linkages among micro-enterprises, SMEs, and large enterprises and support for innovation and leadership in corporate social and environmental responsibility.

Protecting the environment and encouraging business savings and investment in environmentally friendly business practices is another desired result of the PSD. Having a business enterprise that is devoted to maintaining higher environmental standards has the potential to encourage other firms to adopt similar principles. An obstacle to the growth of business adaptation to more sustainable policies is the belief that being an environmentally conscious company will be costly and result in lost profits. Companies that do encourage environmentally conscious decisions have the opportunity to work with CIDA in bringing about meaningful development in poorer nations. The ability to do so can be beneficial marketing for the company, showcasing its social responsibility to the communities in which it operates. The capital that can be gained from this exposure has the potential to offset any additional cost that may be incurred by adopting environmentally sound policies.

In China the PSD programs that are currently being implemented have an emphasis on skills training and strengthening of legal and regulatory frameworks. The skills training will enhance the capabilities of human capital and will provide greater opportunities to those receiving the education. As was mentioned in the Western Region Development Program, there is a need for increased skill development in the Western region of China. Working with CIDA, China can benefit from training programs that have been effective in Canada. ACOA has training programs to increase the skills of people in Atlantic Canada therefore it could be possible for the knowledge created within

the ACOA agency to be beneficial for CIDA programs in Western China. Working with the Chinese government to strengthen the legal and regulatory framework will also allow CIDA to transfer the knowledge and experience from Canada to officials in China. As China integrates further into the global economy, it must restructure its legislative body to accommodate foreign investment in the country.<sup>46</sup>

The priorities that have been outlined by CIDA in the CDPF and PDS strategy illustrate the direction to which Canada's foreign policy, in terms of aid and assistance is headed. The notion that ACOA style programs can be implemented through CIDA in China is best exemplified in the CDPF doctrine. The reduction of inequality between the two regions of China is of concern not only to the Chinese government, but also the Canadian development agency, assigned the responsibility to work with China to implement effective programs. The inclusion of the private sector in development policy requires that environmental responsibility be applied to any project that is implemented. Appropriate corporate governance is also essential for the idea of sustainable development to be realized. However, within the issue of CIDA's ability to influence Chinese policy, I suspect that the Chinese will inevitably do what's in the best interests of their central government. The policies that have been adopted by the Chinese national Government will be perceived as being better able to meet the needs of its citizens than adopting recommendations from foreign governments. China is a country that develops its own policy and follows through with that using resources within its own borders or accepting foreign support only when it suits the initiative of the government.

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<sup>46</sup> [http://www.acdi-cida.gc.ca/cida\\_ind.nsf/AllDocIds/756860321BAFA82685256D5C004667F7?OpenDocument](http://www.acdi-cida.gc.ca/cida_ind.nsf/AllDocIds/756860321BAFA82685256D5C004667F7?OpenDocument)



## **CHAPTER 7 ANALYSIS AND CONCLUSION**

### **7.1 Introduction**

Having examined the approach taken by China and Canada to reduce regional inequality within their own borders, it is now time to analyze the information presented to determine if there are enough similarities between the two approaches to warrant an ACOA model to be established in Western China. Regional development has been recognized within China and Canada as a detriment to the overall progress of their respective nations. With one region lagging behind economically compared to others within a national framework, there is the possibility for civil unrest and dissatisfaction with government officials as inequality widens. When China opened itself to foreign markets, it adopted policies specifically aimed at developing the Eastern region of the country first, without incentive to accommodate growth in the Western region. Today there is a widening gap between these two regions that has now been recognized as a threat to further growth in China. In response to this, the tenth Five-Year Plan has focused on the Western region economy, as outlined in the Western Region Development Program.

### **7.2 Analysis**

The WRDP has identified several priorities for Western China, which it believes will result in further expansion of the area. Communication arteries will link the major cities of the region to gradually form a network of inter-provincial economic zones. Specific areas identified within the WRDP include along the western part of Longhai Railway and Lanzhou-Xinjiang Railway, the upper reaches of the Yangtze River, and the Nanning-Guiyang-Kunming zone. These areas have been identified as priority because

of their location, which will forge linkages with Eastern China and other countries of continental Asia. Economic zones were the initial mechanism used by the Chinese government when it first began opening to export and foreign investment. These have been identified as successful for the Eastern areas of the country; however there is speculation that the same initiative will be less successful for growth in the Western region of China.

The difficulties that may be encountered by the Chinese government in the implementation of economic zones will likely result in slower economic growth for Western China than is expected. While economic zones and large infrastructure projects will inject large amounts of money into the area, the long term growth of the region may not be sustained unless other measures are taken to ensure investment will continue after the initial priorities are completed. Given this possibility I have examined the ACOA model for Atlantic Canada to determine if there is the option for China to pursue similar initiatives as has been done in this Canadian region. I will systematically examine each priority of ACOA, analyzing its relevance in the overall program being executed by the Chinese government in Western China.

#### *Policy, Advocacy and Coordination*

This priority for ACOA may have potential to influence economic development in Western China. The focus of this priority would allow a development agency in Western China to carry out a policy and research agenda that is based on comprehensive regional experience, information from economic development stakeholders and partners, and a growing body of research and consultation. This approach would focus on emerging regional, provincial and local economic issues; structural conditions within the Western

China; sector-specific considerations; key federal policies and the government's own priorities and program initiatives. Within the WRDP, there is an acknowledgement from the Chinese government that development priorities must be combined with the promotion of all-round development. Any combination of priorities would require coordination and a coherent policy initiative in which an ACOA model could bring to Western China.

The ability for CIDA to pursue an ACOA model based on the initiative of increased policy, advocacy and coordination, would be problematic. The ability to coordinate policy must be done by the Chinese government. It is the decision makers in Beijing that control the direction of Western China; therefore all CIDA would be able to do in this instance would be to suggest possible applications for policy. Western China will be developed with the interests of China forming the basis of decisions that will be implemented. The role of government in accomplishing development in less developed regions of their own jurisdiction has primarily rested on the central government in China and the federal government in Canada. The legislation and actions taken by these political bodies greatly influences the effectiveness of policy for regional development.

*Entrepreneurship and Business Skills Development.*

In Western China, there is a growing need for skilled employees and managers for business operations. Increasing the skills of both workers and employers will enhance the business potential in the region. Increasing the skill level would have a positive effect on productivity and efficiency of the workplace. The Business Development Program (BDP) has been implemented to provide businesses with loans to start or expand their businesses. Owners must apply for these loans, supplementing a business plan to

illustrate the profitability of the venture and a vision for how the business will contribute to growth in the region. Western China would benefit from such a program, as it offers business operators skills and training programs to improve their management abilities.

Linking ACOA and CIDA in entrepreneurship and business skills development is possible since both agencies promote the development of the private sector. Under the Private Sector Development (PSD) policy CIDA encourages private sector development in poorer regions as a means of stimulating economic growth in the area. Perhaps under this type of a policy, it may be possible for a BDP type program to be established in Western China, increasing the opportunities for small business owners to expand their enterprise or give incentive for new business start-ups. However, given the current political institution of China, the communist government devises policy to be implemented in the region. The BDP is a model that allows for entrepreneurs and individuals to design and implement their own business ideas. A program of this nature may be problematic for the Chinese government, as it supports individual freedom to develop business ideas that may be in contrast to the objectives of the government.

### *Innovation and Technology*

Advancements in innovation and technology are also important to the development of both Atlantic Canada and Western China. In Atlantic Canada there has been an increased effort to establish linkages between research and development of new technologies within institutions such as universities and the private sector. The incentive for pursuing more innovation and technological advance is better paying employment for citizens and an incentive for researchers to choose the region to conduct their studies. It is an attempt to end the exodus of young people that have left the region for better

opportunities elsewhere. Establishing more research in the region will benefit not only those conducting the research, but also the community as spin-offs from the fruits of research are realized locally. Programs, such as the Atlantic Innovation Fund (AIF) in Atlantic Canada encourage more research to be conducted within Atlantic Canada through ACOAs lending strategy.

In the tenth Five-Year Plan, one of the main tasks of the WRDP is to actively conduct industrial restructuring by upgrading traditional industries. However the approach taken by China is different than that of ACOA. The WRDP insists that advanced technologies should be used to restructure traditional industries, especially in industries with comparative advantage for Western China. Essentially the government wants to focus more on the production and use of advanced technology instead of inspiring research in the Western Region. The priority outlined by ACOA should inspire more innovation in Atlantic Canada; however the time it takes for research to be conducted and commercialized is long. If such a policy was initiated in Western China, there should be an emphasis placed on decreasing the amount of time from the research stage to the process of commercialization.

CIDA's objectives in China does not specifically include innovation and technology as priorities for development; however it could be reasoned that equitable growth could be a result of more technological innovations in Western China. It could also be determined that environmental sustainability which is an objective of CIDA in China, could be obtained by increasing innovation within the region for greater use of environmentally sustainable practices. The spin-off effects from research and development could inspire greater economic growth; therefore increased funding for

institutions to conduct research in Western China would benefit the local population.

However, Western China must create more of these institutions that will conduct research before such a practice can be beneficial.

### *Community Economic Development*

Western China needs greater infrastructure in the region to facilitate expanding economic growth and maintain basic services for its citizens. Infrastructure and skill development are among the criteria identified as essential to increasing economic development in the WRDP and perceived to be a catalyst for future investment in the area. The ACOA priority of enhancing communities within Atlantic Canada has resulted in the creation of Strategic Community Investment Fund (SCIF), a program that encourages community organizations to apply for infrastructure funding. A program such as this would involve communities in Western China in the planning and creation of projects that will enhance the quality of their village. The SCIF program, similar to the BDP involves local groups in determining how best to develop their communities.

The WRDP recognizes the need for greater infrastructure; however, with Western China having such limited infrastructure, there needs to be huge investments made in major projects such as highways, railroads, and water supplies. Before individual communities can apply for greater infrastructure in their area, the central government must install the fundamental projects to increase access to remote areas of Western China. Also, the Chinese government would ignore individual or group suggestions on how best to develop their communities, as it may conflict with the overall goal of the government. CIDA does contribute funds for infrastructure projects that are in

accordance to the central governments plan but it would be unlikely to implement a similar strategy of ACOA.

#### *Access to Capital and Information*

As a lending agency, ACOA provides capital to individual businesses and groups that might otherwise not be able to obtain such funding. This priority follows the strategy of increasing skills and entrepreneurship. As more capital is accessible to business, there must be a suitable business plan written to illustrate how money will be spent. There is an emphasis on skill development for entrepreneurs, giving them a greater ability to create a successful business. The WRDP does not provide capital for budding entrepreneurs in Western China. It also does not offer incentive for skill development in business. This could be an opportunity for ACOA's model to be used in the context of Western China if it is to be accepted by the Chinese government. Any training of entrepreneurs could be accomplished through the Private Sector Development (PSD) initiative in CIDA. The current PSD programs in China have an emphasis on skills training; therefore a program such as those created by ACOA could involve transferring capital to enhance business or provide skill skills training for the business people, promoting sustainable business practices.

#### *Trade, Tourism and Investment*

According to ACOA, every \$1 million in increased export value results in 11 new jobs in Atlantic Canada. In China, this number is likely larger. Expanding trade in Western China can have dramatic effects for the region, if the benefits are returned back to the region. This can be accomplished by increasing the skills of workers and employers alike. Investment in research, promotion, intelligence gathering and

investment partnership are activities that ACOA promotes to increase trade and investment. The WRDP's priority is to establish economic zones in strategic areas to initiate stronger trade linkages between Western China and Eastern China, as well as other countries bordering the Western Region. ACOA's model, being a government agency to promote skill development, would benefit the local areas where the Chinese government wants to promote growth.

CIDA's ability to promote trade and investment already exists through its skills training programs that have been initiated by the China Country Development Programming Framework (CDPF). Promoting stronger trade initiatives and investment in the Western Region, would assist in the overall goal of the CDPF for equitable growth. However, it could become problematic if trade between East and West China is used primarily for the extraction of resources to benefit cities on the East Coast of China.

#### *Overall Model Analysis*

ACOA as a government agency to promote regional development, has been criticized as a fund for political purposes. However, the agency has injected funds into the Atlantic Canadian economy that otherwise would not have come to the region. Focusing on infrastructure and research are strengths within the agency that have the greatest potential to reform the Atlantic economy. It will be a process that takes decades before the agenda of ACOA will significantly reduce inequality between Atlantic Canada and the remainder of the country. While the federal government offers a direction for the Atlantic economy, the model created by the government is very much what I consider a bottom up approach to development, where the region determines the projects to be implemented.



Would such a model work in Western China? The Chinese government's strategy to development in Western China is very much a top down approach, where many millions of dollars is directed by the government in Beijing for major projects in the Western part of the country. The region is very remote and well behind the advancements that have been made in coastal cities. It is unlikely at this time, the Chinese government would use a model like ACOA to stimulate growth in Western China, as it would promote a fragmented approach to what has been outlined in the Tenth Five Year Plan. An approach that promotes individual ideas and financial incentives to ensure this occurs is not something a communist government would be examining.

As China establishes greater accessibility in the Western Region and potentially adopts more democratic principles, it could be possible for the model to be adopted; however that could be well into the future. Also, one of the strategies in China involves all areas of the country to participate in the development in the Western Region, to reduce inequality. I'm not sure how realistic this is; however I believe it is an idea that could be tried in Canada. For Atlantic Canada to reverse the economic outlook there should be a concerted effort on all regions of Canada to promote growth in the Atlantic Region, redesigning policy to put the East Coast at an advantage, as opposed to a dependent on wealthier regions. In this respect, it could be the developing country that can illustrate to a more advanced nation, how best to solve issues of regional inequality.

### **7.3 Conclusion**

Having worked with ACOA, I have had the opportunity to work on issues of regional development as it concerns Atlantic Canada. I have also worked in China for one year; therefore it was through these connections that I decided to write this report on

regional development in Western China. The widening gap between coastal cities and the hinterland of China has inspired me to look at the issue of regional development and examine how the Chinese government is confronting this situation and what Canada has done to address regional inequality within its borders. While it would be idealistic to believe that a foreign agency model could easily adopt be adopted in Western China, it has proven to be more complicated. Given the current political situation in China and the vast inequity between its regions, it is unlikely that an agency model such as ACOA could be implemented at the present time.

Canada is assisting China in its attempt to reduce inequality between regions, and growth equity is among its objectives when implementing projects in China. Through this work, Canada and China can work together exchanging ideas and strategies on what is the best agenda to address the issue of regional development. Cooperation and understanding of each country's present condition can facilitate the creation and implementation of effective programs to combat issues of poverty and disease. Western China has the opportunity to create a better future for itself by inducing more skill development and with the creation of better infrastructure. However, skeptics of the central governments objectives for the region believe any investment in Western China will eventually be returned to the coastal cities. If the issue of regional inequality is not adequately addressed, there is the potential for civil unrest to erupt in the Western Region, creating instability with China and may discourage future investment in the country as a whole. China must effectively address this issue or face an uncertain future, whereby the advances it has made in the last two decades could be jeopardized.

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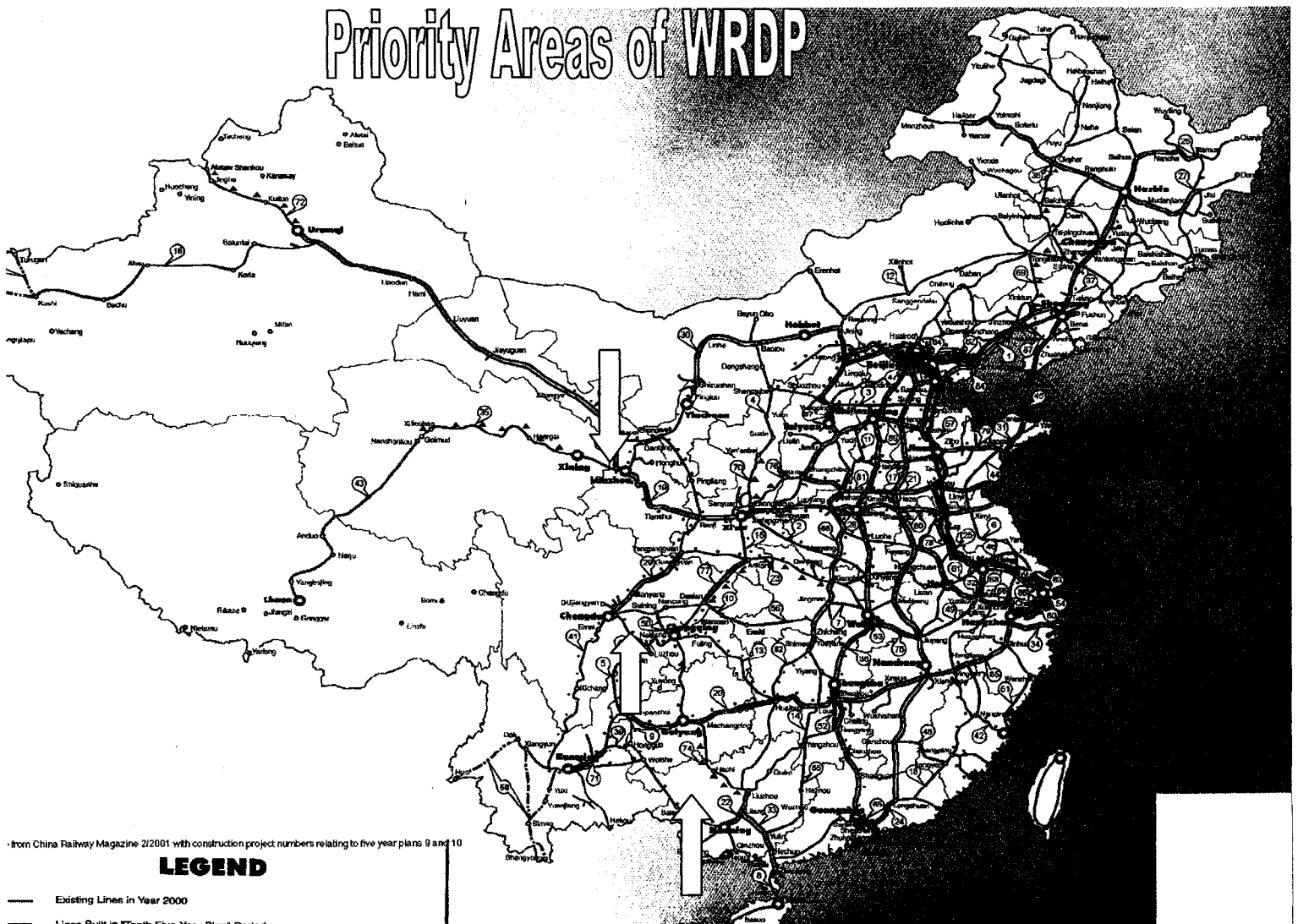
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**Appendix A**

Map # 2: Railway Map of China for Tenth Five-Year Plan

**Priority Areas of WRDP**

<http://www.nordling.nu/schaefer/chinamap.gif>

## **Appendix B**

### **Business Development Program**

Costs eligible for up to **50%** financing include:

- The construction or acquisition of a building
- machinery and equipment needed for the project
- working capital requirements related to an establishment or expansion project
- site improvements such as land clearing and paving required for the project
- leasehold improvements required for the project
- leased equipment and conditional sales contracts
- infrastructure such as sewer and water needed for a project
- self-built assets
- intangible assets such as patents, trademarks and licenses
- start-up costs such as insurance and interest capitalized during construction

Costs eligible for up to **75%** financing include:

- **Marketing:** Includes the development of a marketing plan, the hiring of marketing expertise to implement the plan, and related marketing activities such as labelling, packaging, promotional materials, advertising, product demonstrations and participation at trade shows.
- **Training:** Includes the development of a training plan, the hiring of training expertise to implement the plan and related activities such as training materials, seminar fees, and wages during the time that employees received off-the-job training.
- **Productivity/Quality Improvement:** Includes the development of a productivity or quality improvement plan, the hiring of expertise to implement the plan, and related activities such as obtaining a recognized quality certification such as ISO, and the cost of needed technical equipment.
- **Innovations:** Includes costs related to researching and developing new or improved products, services and processes such as the labour costs of expertise, materials, special equipment, testing and patents.
- **Consultant Advice:** Includes the cost of hiring a qualified consultant to prepare a business plan, feasibility study, investigate licensing opportunities, conduct a venture capital search, technology transfer search or provide advice to improve your business skills.
- **Contract bidding:** Includes the cost of improving your competitive ability to bid on and acquire public and private sector contracts.
- **Business proposal development:** Includes the cost of turning your idea into a viable business proposal, example the completion of feasibility study, prototype development, and gathering information on markets and raw material suppliers. Maximum contribution is \$10,000 for this activity.



- **Business Support:** Not-for profit organizations may qualify for assistance towards activities that support the business community, entrepreneurship or economic development.

<http://www.acoa.gc.ca/e/financial/business.shtml>



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