

Fiscal Reforms, Investment, and Regional Development in Jiangsu Province

YEHUA DENNIS WEI

Fiscal and investment reforms are important components of China's economic reforms, and have exerted tremendous impact on uneven regional development in China. This paper shows that dramatic changes have taken place in Jiangsu's fiscal systems and investment patterns. Reforms have stimulated local revenue growth, but Jiangsu's revenue submitted to the central government has also been large. Consequently, the provincial budget was squeezed, and the localities have used local strategies to create more extrabudgetary revenues for local spending. Bargaining and local protection have been intense. Meanwhile, with the declining control of the central government over investment, localities and the non-state sector have emerged as major agents financing regional development in Jiangsu. Regions are able to channel investment into more profitable sectors, especially township and village enterprises (TVEs). Fiscal and investment reforms have stimulated economic growth, but have also contributed to rising interregional and rural intercounty inequalities. However, central cities struggled with fiscal control and problematic state-owned enterprises (SOEs), leading to the decline of overall intercounty inequality in Jiangsu.

Dr. Yehua Dennis Wei, Assistant Professor, Department of Geography and Urban Studies Program, University of Wisconsin at Milwaukee (UWM), Wisconsin 53201, USA, is the author of *Regional Development in China: States, Globalization, and Inequality* (Routledge, 2000), and more than twenty articles. His research interests include urban and regional development, economic and urban geography, and China. The author wishes to acknowledge the support of the Graduate Research Committee Award of UWM. An earlier version of the paper was presented at the Annual Meeting of the Association of American Geographers, Honolulu, Hawaii, March 23-27, 1999.

KEYWORDS: public finance; investment; regions; uneven development; China

* * *

The fiscal system and investment allocation are two key instruments for implementing government policy in former command economies, including China. In orthodox command economies, the central government attempts to take control over revenue, expenditure, and investment allocation mainly through their centralized fiscal and investment systems. The failure of these systems has prompted these countries to undergo dramatic economic liberalization and regional restructuring. However, scholars disagree over the process and consequences of economic reforms, including the effects of fiscal and investment reforms on economic and regional development.¹

Fiscal and investment reforms are major components of China's economic reforms, and have had considerable impact on China's institutional change, economic growth, and uneven regional development. Indeed, fiscal reform is the foundation for the heated debates regarding state capacity, central-local relations, income inequality, and regionalism in China.² Scholars have been very concerned with the impact of fiscal and investment decentralization on the emergence of regions and rising coastal-interior gaps.³ However, much less research has focused on the urban and

¹Ronald McKinnon, *The Order of Economic Liberalization: Financial Control in the Transition to a Market Economy* (Baltimore: Johns Hopkins University Press, 1991); Martha de Melo and Alan Gelb, "A Comparative Analysis of Twenty-eight Transition Economies in Europe and Asia," *Post-Soviet Geography and Economics* 37, no. 5 (1996): 265-86; Jeffrey D. Sachs, "The Transition at Mid-Decade," *American Economic Review* 2 (1996): 128-33.

²Peter Ferdinand, "The Economic and Financial Dimension," in *China's Regional Development*, ed. David S.G. Goodman (London: Routledge, 1989), 38-55; Michel Oksenberg and James Tong, "The Evolution of Central-Provincial Fiscal Relations in China, 1971-1984," *The China Quarterly*, no. 128 (December 1991): 1-32; Yehua Wei, "Fiscal Systems and Uneven Regional Development in China, 1978-1991," *Geoforum* 27, no. 3 (1996): 329-44; Andrew Wedeman, "Agency and Fiscal Dependence in Central-Provincial Relations in China," *Journal of Contemporary China* 8, no. 20 (1999): 103-22.

³Wei, "Fiscal Systems and Uneven Regional Development in China"; Laurence J.C. Ma and Yehua Wei, "Determinants of State Investment in China, 1953-1990," *Tijdschrift Voor Economische En Social Geografie* (Journal of Economic and Social Geography) 88, no. 3 (1997): 211-25.

regional dimensions of fiscal and investment reforms and their implications for uneven regional development, including fiscal and investment changes within the provinces.

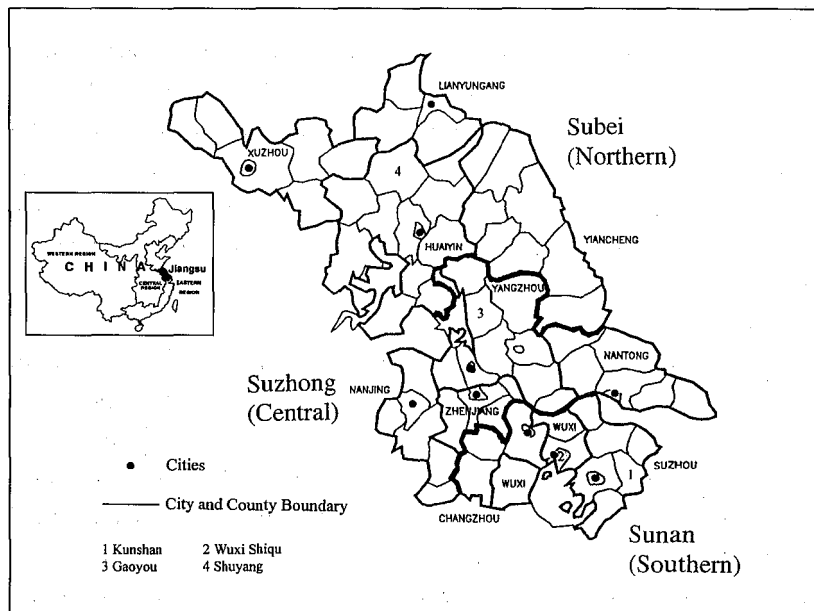
More recently, scholars have begun to debunk the myth surrounding the process and impact of local public finance and investment within the provinces of China.⁴ Yet research on the provinces remains limited. Reforms have produced a complex landscape of economic systems and regional development at the subprovincial level. More research is needed to improve the understanding of fiscal and investment reforms in China and their impact on uneven regional development on a more refined geographical scale.

This paper attempts to study the regional dimensions and impact of fiscal and investment reforms through a case study of Jiangsu province. The author wishes to illustrate the complicated processes of fiscal and investment reforms in China and to contribute to the literature of understanding the multiple mechanisms underlying China's uneven regional development.⁵ This paper analyzes not only the revenue side, which is the emphasis of research on China's central-local relations, but also expenditure and investment. This approach should help to shed more light on local capacity to finance local expenditure and investment, and the impact of fiscal and investment reforms on regional development. Also demonstrated is that in China domestic fiscal systems are still playing a significant role in economic and regional development, despite the tremendous attention to international financial systems and capital flows. While ac-

⁴Albert Park, Scott Rozelle, Christine Wong, and Changqing Ren, "Distributional Consequences of Reforming Local Public Finance in China," *The China Quarterly*, no. 147 (September 1996): 751-78; Linda Chelan Li, "Provincial Discretion and National Power: Investment Policy in Guangdong and Shanghai, 1978-93," *ibid.*, no. 152 (December 1997): 778-804; Peter T.Y. Cheung, Jae Ho Chung, and Zhimin Lin, eds., *Provincial Strategies of Economic Reform in Post-Mao China* (Armonk, N.Y.: M.E. Sharpe, 1998).

⁵There are many studies on regional inequality in China. See Thomas P. Lyons, "Interprovincial Disparities in China," *Economic Development and Cultural Change* 39, no. 3 (1991): 471-506; C. Cindy Fan, "Of Belts and Ladders: State Policy and Uneven Regional Development in Post-Mao China," *Annals of the Association of American Geographers* 85 (1995): 421-49; Yehua Wei and Laurence J.C. Ma, "Changing Patterns of Spatial Inequality in China, 1952-1990," *Third World Planning Review* 18, no. 2 (1996): 177-91; Dali Yang, *Beyond Beijing* (London: Routledge, 1997); Yehua Dennis Wei, "Regional Inequality in China," *Progress in Human Geography* 23 (1999): 48-58.

Map 1
Regions and Counties in Jiangsu



knowledging the importance of international finance, the author contends that more efforts should be made to understand urban and regional finance in developing countries and transition economies.

Jiangsu leads China in fiscal and investment reforms, and has long established close economic and cultural ties to Taiwan. Jiangsu is one of the most dynamic provinces in China and has always been in the forefront of national policy changes. The province is known for its township and village enterprises (TVEs), and has a growth trajectory similar to many other coastal provinces, such as Zhejiang and Shandong. The province has been sensitive to state policy change because Jiangsu is one of the most developed provinces and because of its geographical proximity and linkages to Shanghai which has long been an epicenter of political and economic changes in China. Large regional disparities, especially between a poorer northern Jiangsu (Subei) and a richer southern Jiangsu (Sunan), have long concerned the provincial and local governments (see map 1).

Availability of subprovincial data, and the author's experience with and connections to Jiangsu provide another incentive for this study. The Jiangsu Provincial Statistics Bureau has recently published detailed county-level statistics which are hardly matched by any other provinces.⁶ The author has also conducted informal interviews with local officials to understand the complexity of fiscal and investment reforms and their implications for uneven regional development in Jiangsu.

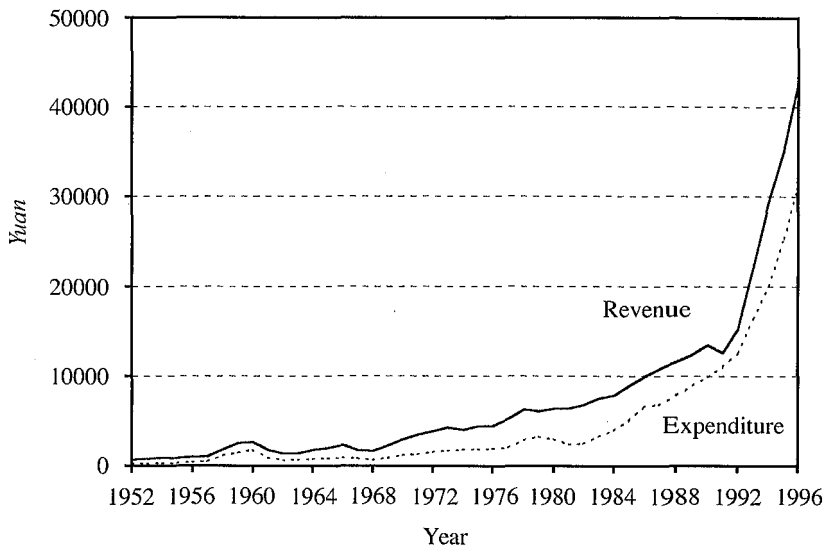
Reforming Central-Provincial Fiscal Systems

After the establishment of the People's Republic of China (PRC) in 1949, China in the early 1950s established centralized fiscal and investment systems to take control of the Chinese economy and to finance industrialization and military affairs. Like many other former command economies in Eastern Europe, while central-local fiscal arrangements changed over time, the fiscal system under Mao was essentially centralized. The emphasis of resource allocation was in China's industrial bases (e.g., Liaoning) and the interior provinces due to consideration of industrialization, national defense, and spatial equity. Jiangsu, like many other coastal provinces, submitted huge revenues to the central government, but received much less downward transfers from the center for local spending.

During the Mao era, Jiangsu's expenditure was always significantly less than the province's revenue, due to the large transfers to the central government (see figure 1). Jiangsu's per capita expenditure during the Mao era was among the lowest in China. During the economic recovery period (1949-52), Jiangsu handed over 76 percent of its revenue to the center (see table 1). In 1952, for example, Jiangsu's revenue was 680 million *yuan*, much larger than expenditure (270 million *yuan*). In 1955, with the implementation of the First Five-Year Plan (1953-57), local revenue in Jiangsu

⁶Jiangsu Provincial Statistics Bureau (JPSB), *Jiangsu tongji nianjian* (Statistical yearbook of Jiangsu), 1990-98 editions (Beijing: Zhongguo tongji chubanshe, 1990-98); JPSB, *Benxiang xiandaihua licheng* (Pathways to modernization) (Nanjing: JPSB, 1994). Unless noted otherwise, data for 1990 and 1995 come from JPSB 1991 and JPSB 1996 respectively, and historical data during the Mao era are from *Benxiang xiandaihua licheng*.

Figure 1
Revenues and Expenditures in Jiangsu, 1952-96



Sources: Jiangsu Provincial Statistics Bureau (JPSB), *Jiangsu tongji nianjian* (Statistical yearbook of Jiangsu), 1994-96 editions (Beijing: Zhongguo tongji chubanshe, 1994-96); JPSB, *Benxiang xiandaihua licheng* (Pathways to modernization) (Nanjing: JPSB, 1994).

Table 1
Jiangsu's Revenue Contribution to the State

Period	Amount (Billion yuan)	As % of Revenue
Recovery (1949-52)	1.22	76.0
First Five-Year (1953-57)	2.75	61.6
Second Five-Year (1958-62)	4.20	42.2
Readjustment (1963-65)	2.83	56.1
Third Five-Year (1966-70)	6.35	59.0
Fourth Five-Year (1971-75)	11.77	59.7
Fifth Five-Year (1976-80)	16.66	59.8
Sixth Five-Year (1981-85)	23.48	64.2
1995	19.00	54.2

Sources: *Dangdai Zhongguo de Jiangsu* (Contemporary China: Jiangsu) (Beijing: Zhongguo shehui kexue chubanshe, 1989); *Jiangsu tongji nianjian* (Statistical yearbook of Jiangsu) (Beijing: Zhongguo tongji chubanshe, 1996).

reached 847 million *yuan*, while local expenditure rose only slightly (to 289 million *yuan*). Per capita expenditure in Jiangsu was 7.25 *yuan*, lower than the national average and among the lowest quartile of provinces. In 1965 when China's defense-oriented Third Front project was implemented, Jiangsu's expenditure was 8 billion *yuan*, still considerably less than revenue (19.4 billion *yuan*). On the eve of economic reforms in 1976, Jiangsu's revenue reached 4.4 billion *yuan*, but its expenditure was only 2.49 billion *yuan*. Although Jiangsu received some decision-making power during the late 1950s and early 1970s—which stimulated local efforts in revenue generation and increased local spending—the gap between revenue and expenditure remained large. From 1952 to 1976, the province's total expenditure was 24.11 billion *yuan*, which only accounted for 43.9 percent of its total revenue (54.92 billion *yuan*).

After the death of Mao in 1976, new experimental fiscal systems were initiated to provide incentives to regions and to reduce the fiscal burdens of the localities. The provincial leaders of Jiangsu proposed to the central government a reform package that would give greater leeway to Jiangsu in economic planning, fiscal arrangements, and resource allocation. Consequently, Jiangsu implemented a new fiscal system of "fixed rate contracts" (*guding bili baogan*) in 1977. Under this system, the rate of revenue sharing was fixed for four years, and the province also received more authority in budgeting and expenditure. This system clearly stimulated revenue generation and spending: in 1977 and 1978, for instance, both revenue and expenditure grew rapidly in Jiangsu. Jiangsu's revenue transfer to the central government remained large. In 1978 Jiangsu's per capita revenue was 105 *yuan*, ranked 7th in the country, but expenditure was only 49 *yuan*, ranked 22d among the provinces and lower than the national average (63 *yuan*).

Based on the experiments of Jiangsu, Sichuan, and other provinces, the central government decided in 1979 to launch national fiscal reform in 1980. The 1980 fiscal reform provided the provinces with more fiscal powers in revenue sharing and expenditure, following the idea of "eating in a separate kitchen." Jiangsu continued its four-year fixed revenue sharing with some adjustment, which was slightly changed to "sharing total revenue" (*zonghe fencheng*) in 1981. However, Jiangsu's local revenue reten-

tion rate was still among the lowest in China (39 percent), except for a few other coastal provinces (e.g., Shanghai and Tianjin). During 1983 and 1984, Jiangsu's local retention rate was even further reduced to 35.7 percent, as the central government demanded a reduction in local expenditure and borrowed from the localities. From 1977 to 1985, Jiangsu submitted 71 billion *yuan* in revenue to the central government.⁷ The fiscal burden for the province remained high, especially in such cities as Wuxi which have much lower local retention rates. To provide more incentives for the localities, Jiangsu implemented a slightly revised system during the 1985-87 period—"sharing total revenue with growth adjustment" (*zonghe fen-cheng jia zengzhang fen-cheng*).

Another round of fiscal reform was implemented in China in 1988 to further stimulate local efforts in revenue generation. Jiangsu's fiscal system was improved by introducing "basic sharing with growth adjustment" (*shouru dizeng baogan*), in which a specified nominal proportion was contracted to the central government with a certain growth rate. While this arrangement initially improved revenue, revenue growth slowed in the following years. Although reforms in the 1980s provided more incentives and fiscal powers to the provinces, the early 1990s clearly showed that these reforms did not solve the fundamental problems associated with command economies, such as intense intergovernmental bargaining, vague budgetary categories, reliance on administrative control, and budget deficit and debts.⁸

To protect local interests and satisfy local expenditure needs, Jiangsu, like many other coastal provinces, expanded its extrabudgetary funds.⁹ The ratio of extrabudgetary revenue to budgetary revenue increased from 24 percent in 1978 to 68 percent in 1985. In 1990, Jiangsu's extrabudgetary

⁷*Dangdai Zhongguo de Jiangsu* (Contemporary China: Jiangsu) (Beijing: Zhongguo shehui kexue chubanshe, 1989).

⁸Christine P.W. Wong, Christopher Heady, and Wing T. Woo, *Fiscal Management and Economic Reform in the People's Republic of China* (New York: Oxford University Press, 1995); Project Team, Ministry of Finance, *Caizheng gaige he caizheng zhengce yanjiu* (Research on fiscal reform and fiscal policy) (Beijing: Zhongguo jingji chubanshe, 1994).

⁹Extrabudgetary fund was subject to less stringent direct control from the state but was still under the scope of state planning. The policy regarding extrabudgetary funds, however, has been shifting constantly.



revenue was 11.5 billion *yuan*, only slightly lower than its budgetary revenue (13.6 billion *yuan*). Its extrabudgetary expenditure was 11.4 billion *yuan*, which even surpassed the budgetary expenditure (10.1 billion *yuan*). Extrabudgetary funds are largely controlled by the localities and have benefited local economies greatly. However, the fiscal capacity of the provincial government was extremely weak, as the provincial-level revenue was a negative 110 million *yuan*, a figure considerably lower than the provincial-level expenditure (2.2 billion *yuan*).¹⁰ The weak fiscal capacity of the provincial government relates to the problems of the state-owned enterprises (SOEs) and reflects the increasing fiscal capacity of lower-level governments.

Tensions and problems arising from China's fiscal systems prompted the Chinese leaders to push for fiscal reforms at the Third Plenum of the Chinese Communist Party's (CCP's) Fourteenth Central Committee held in November 1993. A new fiscal system was fully implemented in 1994 following the experiments of 1992-93. A new "tax assignment system" (*fen shui zhi*) was created, dividing taxes into central, local, and shared collections by central and local fiscal agencies. This system has more clearly specified the fiscal responsibilities of the central and local governments and partly replaced traditional bargaining in determining central-provincial revenue-sharing rates. Meanwhile, with the warning on weakening state capacity and rising inequality, the central government increased its share of budgetary revenue and attempted to strengthen its control over fiscal resources.

In 1995, Jiangsu's aggregated revenue was 35 billion *yuan* (including local revenue of 17.3 billion *yuan*), which was considerably higher than expenditure (25.3 billion *yuan*). Revenue was mainly from industrial and commercial taxes, and expenditure was mainly spent on education, administration, and fixed investment. Administrative spending accounted for 16.1 percent of local expenditure, and 1.2 billion *yuan* was used to subsidize lossmaking SOEs. Extrabudgetary revenue reached 24.9 billion

¹⁰Jiang Qiwen, "Report on 1990 Budget Outcomes and 1991 Budget Estimates of Jiangsu Province," *Xinhua ribao* (New China Daily), March 22, 1991.

yuan in 1996, more than any other provinces in China, although Jiangsu's extrabudgetary expenditure was slightly smaller than Guangdong. Jiangsu submitted to the central government 17 billion *yuan* in value-added tax and 2 billion *yuan* in consumption tax,¹¹ indicating that the new fiscal system further increases Jiangsu's fiscal contribution to the central government. Jiangsu remains a heavily "up-transfer" (*shangjiao*) province. Heavy revenue burden has weakened the provincial budget, and considerable disparities in fiscal structures exist among regions in Jiangsu.

Regional Disparities in Fiscal Structure

Corresponding to the restructuring of the central-provincial fiscal system, provincial-local fiscal systems in Jiangsu have also experienced a series of changes that have provided more incentives to the localities in revenue growth. In 1977, Jiangsu led the nation by initiating a system of fixed rate contracts with growth adjustment between the provincial and lower-level governments. During the 1982-87 period, Jiangsu implemented a system of "total rate contracts" (*quane bili baogan*) with local-level governments.¹² In 1983, townships were allowed to establish their own fiscal systems, and therefore gained more fiscal authorities. By 1985, 85.3 percent of all townships in Jiangsu had already established their own fiscal systems.¹³

In 1988, the provincial-local fiscal system was changed to "basic sharing with growth adjustment" (*shouru dizeng baogan*). Further fiscal reforms allowed lower-level governments to retain part of their increasing revenue and to have more control over expenditure, stimulating local efforts for revenue generation and expenditure growth. In addition, some localities received more favorable tax policies, especially for foreign direct

¹¹Jiangsu nianjian (Jiangsu almanac) (Nanjing: Jiangsu nianjian chubanshe, 1996).

¹²Shen Jieer, "The Influence of Fiscal Systems on Industrial Structural Adjustment in Jiangsu," *Jiangsu jingji tantao* (Jiangsu Economic Inquiry), 1993, no. 4:32-40.

¹³Yongnian Zheng, "Institutional Change, Local Developmentalism, and Economic Growth: The Making of Semi-Federalism in Reform China" (Ph.D. dissertation, Princeton University, 1995).

investment and trade. However, although the provincial government attempted to raise local retention rates for cities—such as changing fiscal arrangements with Wuxi, Suzhou, and Nantong in 1985—the fiscal burden of cities remained considerably higher than that of counties. In 1995, the tax assignment system was implemented in all cities and counties in Jiangsu. While this new arrangement has more clearly specified the fiscal responsibilities of the central and local governments, fiscal responsibilities among local governments are still not clearly defined and further reforms are needed.

Jiangsu was marked by dramatic regional disparities in revenue and expenditure. Economic reforms have provided considerable incentives for rich counties, although poor counties also received enormous fiscal power. In general, regions in Sunan generated much more revenue than in Subei. Since economic reforms began, gaps between Sunan and Subei in revenue and expenditure have increased, although all regions in Jiangsu have recorded revenue growth. As shown in table 2, Sunan's per capita revenue and expenditure were much higher than that of Subei and Suzhong. In 1996, average per capita revenue was 1,152 *yuan* in Sunan, much higher than in Suzhong (670 *yuan*) and in Subei (271 *yuan*). The gap in expenditure between Sunan and the rest of Jiangsu was also quite large (four times larger than Subei). However, Sunan tends to submit more budget surplus to higher-level governments, although the region still has higher per capita expenditure and also controls more extrabudgetary funds.

Several counties in Sunan have had revenues among the highest in the nation. In 1980, Changshu and Jiangyin's revenues surpassed 100 million *yuan*. Wuxi (Xishan), Wujin, Wujiang, Yixing, and Shazhou soon joined the list. The counties with the highest revenues are all located in Sunan, where TVEs have recorded phenomenal growth. In 1996, ten counties (including county-level cities) in China had revenue over 400 million *yuan*, five of which were in Jiangsu, including Changshu, Zhangjiagang, Wujin, Xishan (Wuxi), and Jiangyin, all located in Sunan.¹⁴

¹⁴*Zhongguo caizheng nianjian* (Finance yearbook of China) (Beijing: Zhongguo caizheng zazhi chubanshe, 1997).

Table 2
Regional Disparities in Revenue and Expenditure, 1996 (Billion Yuan)

Region	Revenue	Local Revenue	Expenditure	Balance	Per Capita Revenue (yuan)	Per Capita Expenditure (yuan)
Jiangsu	42.80	22.32	31.10	11.70	602	314
Sunan	15.46	7.47	7.10	8.36	1,152	557
Suzhou	6.41	3.25	3.15	3.26	1,117	566
Wuxi	5.63	2.56	2.40	3.23	1,306	594
Changzhou	3.43	1.66	1.54	1.89	1,016	492
Suzhong	16.86	8.19	10.00	6.86	670	326
Nanjing	7.88	3.62	4.02	3.86	1,501	690
Zhenjiang	1.78	0.87	1.07	0.71	672	328
Yangzhou	2.04	1.00	1.43	0.61	458	225
Taizhou	2.08	1.10	1.46	0.62	419	222
Nantong	3.08	1.60	2.02	1.06	392	204
Subei	8.26	4.47	7.08	1.18	271	147
Xuzhou	3.02	1.53	2.14	0.88	352	178
Huaiyin	1.29	0.60	1.08	0.21	263	122
Yancheng	1.89	1.15	1.86	0.03	240	146
Lianyungang	1.30	0.85	1.20	0.10	300	196
Suqian	0.77	0.34	0.81	-0.04	160	71

Source: *Jiangsu tongji nianjian* (Statistical yearbook of Jiangsu) (Beijing: Zhongguo tongji chubanshe, 1997).

On the other hand, some counties in Subei could not balance their budgets and required provincial support to reduce fiscal distress. Indeed, in several counties—including Guannan, Xuyi, Hongze, Shuyang, and Lianshui—the budget could not be balanced during much of the last five decades. Some counties in Subei have had tremendous fiscal difficulty. From 1950 to 1996, Shuyang balanced its budget only in four years—1952, 1957, 1969, and 1978, and budget deficits only intensified in the 1990s. In 1996, Shuyang's aggregated revenue (including central revenue) was 120 million *yuan*, which was considerably lower than its expenditure (190 million *yuan*), leading to a deficit of 70 million *yuan*. Thus, gaps in fiscal conditions are clearly quite large among counties in Jiangsu.

Meanwhile, cities also have had more difficult fiscal conditions than rich counties in Sunan. While many provinces in China benefited from

fiscal decentralization during the 1980s, fiscal conditions in the cities were more tightly controlled. Scholars have reported fiscal distress and the declining economic status of old cities (such as Shanghai and Tianjin) during the 1980s.¹⁵ Jiangsu's higher revenue submission squeezed the cities which had lower local revenue retention rates. Wuxi's revenue submission, for example, was similar in size to the province of Guangdong, one of the richest provinces in China that produced much larger gross domestic product (GDP) than Wuxi. Cities are also dominated by SOEs, which tend to pay higher taxes than non-state enterprises. In terms of expenditure, cities were also more tightly controlled by higher-level governments. As will be shown in a later section, fiscal problems in cities have affected the growth of cities during the reform period.

Investment Reforms and Regional Patterns

Investment has also played a significant role in economic and regional development in former command economies. Investment systems and investment patterns in Jiangsu have changed greatly over time. During the 1950s, China's investment policy favored the recovery of traditional industrial bases and the development of the interior, and most of the coastal provinces, including Jiangsu, were de-emphasized in resource allocation. Among the 156 key-point projects imported from the Soviet Union, none was allocated in Jiangsu. However, Jiangsu still had to contribute substantial revenues to the state. Moreover, some industrial equipment and technicians in Jiangsu were transferred to poorer provinces for the purpose of interior development and defense consideration. During the 1960s, national defense was emphasized, and heavy industry received high priority in state investment. As the Chinese government favored the interior in allocating defense industries (mainly in the Third Front areas), state investment in Jiangsu was very limited. During the early 1970s, however, with

¹⁵Lynn T. White III, *Shanghai Shanghaied?* (Hong Kong: Centre of Asian Studies, University of Hong Kong, 1989); Wei, "Fiscal Systems and Uneven Regional Development in China."

the normalization of Sino-U.S. relations and the emergence of a pragmatic leadership, the emphasis of China's investment began to shift to the coastal region. Several large-scale investment projects were allocated in Jiangsu, particularly in Nanjing, the provincial capital. Meanwhile, during the early 1970s, the central government encouraged the development of TVEs, and hundreds of such enterprises were established in Sunan.

Since economic reforms began, Jiangsu, like other coastal provinces, has received more decision-making power from the central government. Fiscal and investment reforms have provided considerable incentives for the growth of local economies, and have decentralized many SOEs for local management. Several major changes in fixed investment can be summarized. First, local governments and enterprises have been given greater autonomy in investment decision-making. The reform policies as a whole have defined a climate that encourages active involvement of local officials in economic development and promotes entrepreneurship. The provincial government of Jiangsu has actively bargained with the central government to obtain more favorable reform policies. Moreover, local governments have also obtained considerable power in investment management, and act like local development states in accumulating and mobilizing capital for investment. These local authorities entice foreign investors, including investors from Taiwan, by offering investment incentives more generous than anywhere else in China outside special economic zones.¹⁶ Capital which previously belonged to commune- or brigade-run collectives became ready resources for local cadres to mobilize.¹⁷ The efforts of local governments are important to the growth and structural change of fixed investment in Jiangsu.

Second, regions have obtained a greater access to different sources of investment, such as bank credits, private investment, and foreign capital.

¹⁶Richard Pomfret, "Taiwan's Involvement in Jiangsu Province," in *Emerging Patterns of East Asian Investment in China*, ed. Sumner J. La Croix, Michael Plummer, and Keun Lee (New York: M.E. Sharpe, 1995), 167-78.

¹⁷Martin Weitzman and Chenggang Xu, "Chinese Township-Village Enterprises as Vaguely Defined Cooperatives," *Journal of Comparative Economics* 18, no. 2 (1994): 121-45; Fang Shan, "The Growing Role of Township Enterprises in Mainland China's Economy," *Issues & Studies* 28, no. 2 (February 1992): 128-30.

Table 3

Sources of Finance for Fixed Investment in Jiangsu, 1985-96 (%)

	State Budget	Domestic Credits	Foreign Investment	Enterprise Funds	Others
1985	8.99	19.17	2.07	33.58	36.19
1990	4.22	12.76	4.47	29.88	48.67
1993	1.56	22.18	7.82	56.81	11.63
1996	1.23	14.51	17.19	51.36	15.71

Sources: Calculated from data in *Jiangsu tongji nianjian* (Statistical yearbook of Jiangsu), 1996-97 editions (Beijing: Zhongguo tongji chubanshe, 1996-97).

Jiangsu has traditionally had lower proportions of investment from the state budget, which has been declining rapidly during the reform period. As shown in table 3, from 1985 to 1996, fixed investment financed through the state budget declined from 8.99 percent to 1.23 percent, while investment from enterprise funds and foreign capital increased from 33.58 percent and 2.07 percent to 51.36 percent and 17.19 percent, respectively. This represents a fundamental change in financing regional development in Jiangsu where proportions of fixed investment coming from the state budget and state-controlled banks have been declining dramatically. In other words, localities and the non-state sector have emerged as major agents of investment, and the central state is playing a much less significant role in capital accumulation and investment allocation. The provincial government of Jiangsu is also relatively weak in adjusting investment allocation across sectors and regions.

Third, Jiangsu has recorded dramatic growth in fixed investment. During the 1978-95 period, fixed investment grew annually at 29.1 percent. From 1985 to 1995, fixed investment increased from 19.2 billion *yuan* to 168 billion *yuan*, and per capita fixed investment increased from 309 *yuan* to 2,378 *yuan*. The growth rate of fixed investment in counties in Sunan was even higher, fueled by the dramatic growth of TVEs. Rapid growth of investment, while related in part to the high savings rate of the Chinese society and the rapid growth of Jiangsu's economy, is also related to two additional factors. First, as investment and output are important measures of government achievement, local governments have emphasized increas-

Table 4
Investment Allocation in Jiangsu by Ownership Type, 1985-95 (%)

	1985	1990	1995
State-owned enterprises	41.9	37.9	35.9
Collectively-owned enterprises	30.8	21.0	29.2
Others	27.3	41.1	34.9

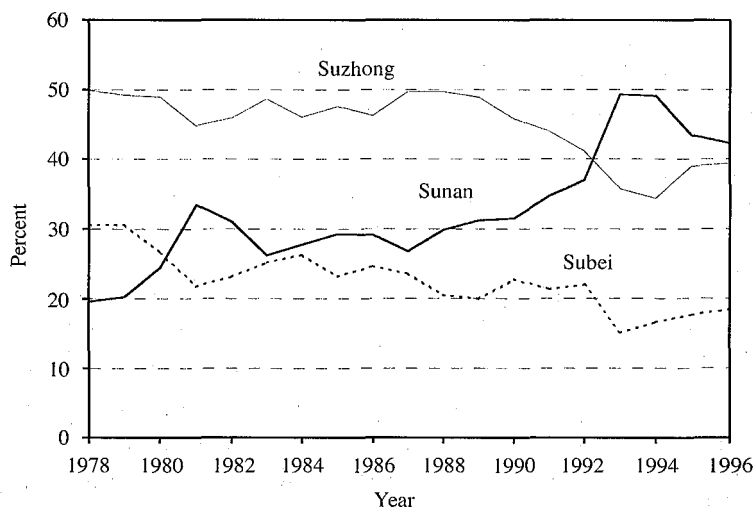
Source: Calculated from data in *Jiangsu tongji nianjian* (Statistical yearbook of Jiangsu) (Beijing: Zhongguo tongji chubanshe, 1996).

ing investment to stimulate economic growth. Second, many SOEs and some collectively-owned enterprises are less concerned with investment efficiency and competition, as efficiency is often a less important criterion for enterprise development.¹⁸ As a result, many regions invested in similar industrial projects, giving little consideration to resources, technology, and competitiveness. Rapid investment growth provides capital for economic growth on the one hand, but also leads to inflation, the waste of resources, and low investment efficiency on the other.

Lastly, more profitable enterprises, with higher investment returns, have attracted a considerable amount of investment. During the Mao era, much of the investment went to SOEs, mainly for capital construction projects. During the reform period, however, the share of investment in SOEs has declined, due partly to the changing sources of investment and partly to poor investment efficiency in SOEs. The share of fixed investment in SOEs declined from 41.9 percent in 1985 to 35.9 percent in 1995 (see table 4). Investment in SOEs has been allocated heavily in projects in energy, transportation, and communications, which take a longer time to build, lack sufficient funds, are poorly managed, and have poorer production efficiency. However, local states and agents have been motivated to allocate their investments in more profitable non-state enterprises, especially TVEs and foreign-invested enterprises, which fueled the growth of the non-state sector. In Jiangsu, TVEs have attracted significant proportions of capital and are an important reason for the province's rapid

¹⁸Ni Jiazhu and Wu Guobin, "A Structural Analysis of Investment Sites in Jiangsu Province," *Jiangsu jingji tantao*, 1988, no. 3:7-10.

Figure 2
Changing Shares of Fixed Investment among Regions in Jiangsu, 1978-96



Sources: Same as figure 1.

industrial growth.¹⁹ In addition, a considerable amount of fixed investment has also been allocated to foreign-invested enterprises, which are among the fastest growing enterprises in Jiangsu.

While Jiangsu has recorded rapid investment growth, substantial disparities exist within regions in Jiangsu. More developed regions like Sunan enjoy early implementation of reform policies and are allowed to retain larger shares of their revenues for reinvestment. As shown in figure 2, the share of Sunan in fixed asset investment has increased during the reform period, while that of Subei has declined. Considerable gaps exist in terms of fixed investment among counties in Jiangsu, as counties in Sunan in general have higher per capita investment (see figure 2). In 1995, per capita fixed asset investment in rural collective enterprises was 1,770 *yuan* in Sunan, and only 315 *yuan* in Subei. In addition, although cities have

¹⁹Chen Demin, Hong Yinxing, and Cao Yong, eds., *Zhongguo quyue fazhan zhong de Jiangsu jingji* (Jiangsu's economy in China's regional development) (Nanjing: Nanjing daxue chubanshe, 1996).

Table 5
Regional Disparities in Fixed Investment, 1995 (Billion Yuan)

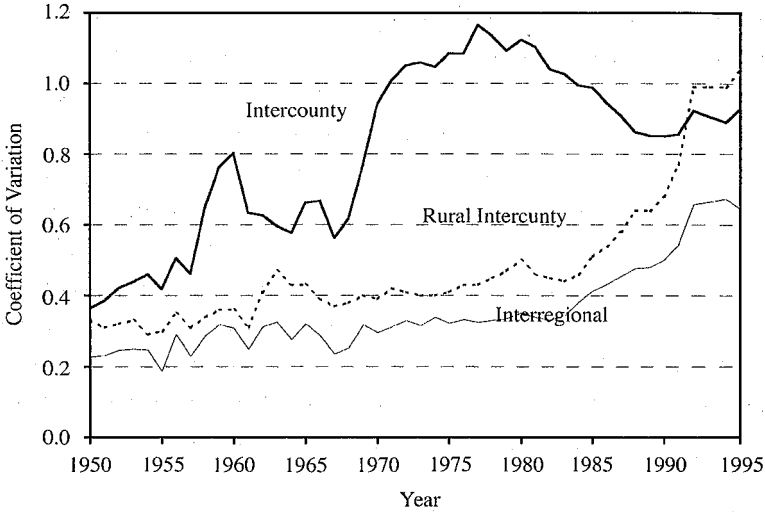
	Total	State-Owned		Rural Collective		Other	
		Volume	%	Volume	%	Volume	%
Jiangsu	168.0	60.3	35.9	45.2	26.9	62.6	37.3
Sunan	63.8	13.2	20.8	23.6	37.0	27.0	42.3
Suzhou	30.5	6.0	19.6	10.6	34.8	13.9	45.7
Wuxi	22.7	3.6	16.0	9.0	39.7	10.0	44.2
Changzhou	10.6	3.6	34.4	4.0	37.4	3.0	28.2
Suzhong	57.3	24.0	41.9	12.5	21.7	20.9	36.4
Nanjing	22.4	10.5	47.0	2.7	12.2	9.2	40.8
Zhenjiang	6.1	2.5	41.4	2.2	36.4	1.4	22.2
Yangzhou	15.1	7.2	47.5	3.3	21.8	4.6	30.7
Nantong	13.7	3.8	27.5	4.2	30.7	5.7	41.8
Subei	26.0	10.5	40.3	9.5	36.4	6.1	23.3
Xuzhou	9.6	3.3	34.6	4.1	42.4	2.2	22.9
Huaiyin	4.5	2.5	55.6	1.1	24.5	0.9	19.9
Lianyungang	5.1	2.1	42.0	1.7	33.4	1.2	24.6
Yancheng	6.8	2.5	36.8	2.6	38.2	1.7	25.0

Source: Calculated from data in *Jiangsu tongji nianjian* (Statistical yearbook of Jiangsu) (Beijing: Zhongguo tongji chubanshe, 1996).

higher per capita investment, SOEs and infrastructure took much of fixed investment in cities, and their investment growth rates tend to be slower.

Sunan and Subei also differ in the allocation of fixed investment in enterprises with different types of ownership. Since Sunan has a larger non-state sector (79.2 percent compared with 58.1 percent in Suzhong and 59.7 percent in Subei in 1995), the region is able to quickly capitalize on the reform policies. In 1995, in Sunan, only 20.8 percent of fixed investment went to SOEs, while in Subei and Suzhong, more than 40 percent of fixed investment went to SOEs (see table 5). Huaiyin of Subei, the slowest growing municipality in Jiangsu, allocated 55.6 percent of fixed investment in SOEs. In 1995, the ratio of per capita fixed asset investment in SOEs to that in rural collective enterprises was 1.11 in Subei, but only 0.56 in Sunan. As SOEs continue to partly operate under the pre-reform socialist planning and as their more rigid model of production lags in efficiency and growth, Subei, which has invested more heavily in SOEs, has not shared Sunan's investment efficiency.

Figure 3
Interregional, Intercounty, and Rural Intercounty Inequalities in Jiangsu, 1950-95



Implications for Uneven Regional Development

Fiscal and investment reforms have had substantial impact on uneven regional development in China. Many scholars have argued that these reforms have intensified income and regional inequalities. In Jiangsu, large regional disparities, especially between poorer Subei and richer Sunan, have existed historically and have concerned the provincial and local governments for a long time. Changing patterns of inequalities at different geographical scales, however, are more complicated than often assumed.²⁰ In this section, the author attempts to incorporate fiscal and investment reforms to explain uneven regional development in Jiangsu.

Based on the coefficient of variation, figure 3 shows that rural intercounty inequality and interregional inequality across Sunan, Suzhong, and

²⁰In this article, rural intercounty inequality is defined as regional inequality across counties (including county-level cities); overall intercounty inequality is defined as regional inequality across all county-level administrative units, including city districts (*shiqu*), counties, and county-level cities.

Subei increased slightly during the Mao era (1950-78), but have intensified during the reform period.²¹ During the late 1970s and early 1980s when rural reforms were emphasized, interregional and rural intercounty inequalities did not change much, as the growth of Sunan was matched by agricultural improvement in Subei. However, since the mid-1980s, with the emphasis of reforms shifted to comprehensive reforms and opening-up policies, Sunan outgrew both Subei and Suzhong by a great margin, and the Sunan/Subei divide and inequalities across rural counties have intensified. Sunan in general and counties in Sunan in particular, with their relative advantages in development, benefited disproportionately from fiscal and investment reforms; as a result, Sunan outgrew both Subei and Suzhong. The coefficient of variation for interregional inequality reached 0.64 in 1995, doubling its level in 1978. In 1995, the gap of per capita gross value of industrial and agricultural output (GVIAO)²² between Sunan and Subei reached 21,316 *yuan*, and that between Sunan and Suzhong was 14,988 *yuan* (see table 6).

Table 6 shows that during the Mao era, average annual growth rate of GVIAO per capita in Sunan was only slightly higher than Suzhong's and 1.1 percent higher than Subei's. Between 1978 and 1995, however, the average annual growth rate of GVIAO per capita in Sunan was 16.3 percent, much higher than that of Subei (10.5 percent) and Suzhong (12.9 percent). In 1995, Sunan's GVIAO per capita reached 25,983 *yuan*, compared to 4,667 *yuan* in Subei. Subei accounted for 42.8 percent of Jiangsu's population but only 22.6 percent of its GDP. Map 2 shows that during the reform period, Sunan as a whole grew faster than Suzhong and much faster than

²¹The coefficient of variation (CV) is the most popular index used to measure regional inequality; others include Theil's entropy index and Gini coefficient. The equation for CV is as follows:

$$CV = \frac{\sqrt{\sum(x_i - x')^2/n}}{x'}$$

where n = number of regions, x_i = observation of the i th region, x' = arithmetic mean for variable x . The higher the CV , the greater the inequality.

²²Gross value of industrial and agricultural output (GVIAO) is the only county/city level economic indicator with time-series data for Jiangsu from the 1950s to the 1990s, and is by far the most reliable indicator of city and county economies, although GDP data for recent years has become available.

Table 6
Per Capita Gross Value of Industrial and Agricultural Output, 1950-95 (Yuan)

Region	1950	1978	1995	1950-78 Annual Growth (%)	1978-95 Annual Growth (%)
Jiangsu	334	1,291	11,129	4.9	13.5
Sunan	454	2,000	25,983	5.4	16.3
Suzhou	430	1,865	31,039	5.4	18.0
Wuxi	454	2,134	25,755	5.7	15.8
Changzhou	498	2,066	17,576	5.2	13.4
Suzhong	338	1,404	10,995	5.2	12.9
Nanjing	285	2,450	15,357	8.0	11.4
Zhenjiang	303	1,380	13,037	5.6	14.1
Yangzhou	325	959	10,100	3.9	14.9
Nantong	393	1,343	8,486	4.5	11.5
Subei	260	852	4,667	4.3	10.5
Huaiyin	236	723	3,446	4.1	9.6
Lianyungang	245	936	5,115	4.9	10.5
Xuzhou	250	932	4,477	4.8	9.7
Yancheng	309	900	6,269	3.9	12.1

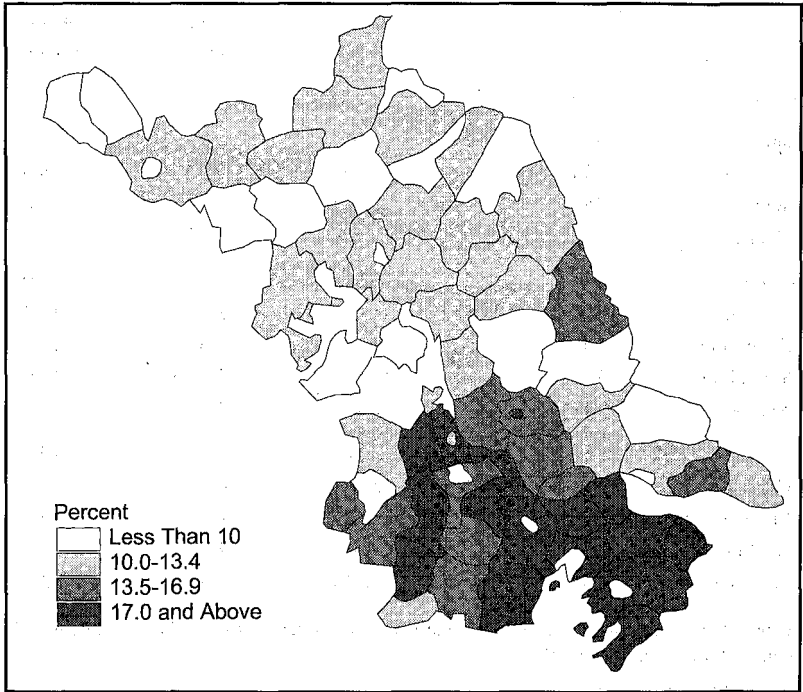
Source: *Benxiang xiandaihua licheng* (Pathways to modernization) (Nanjing: Jiangsu Provincial Statistics Bureau, 1994).

Note: 1990 constant prices.

Subei, leading to the observed increase in interregional inequality. None of the high-growth counties was located in Subei. Most counties in Subei were already very poor to begin with; their lagging growth has further hurt their relative economic positions in the province. Consequently, rural intercounty inequality also increased. Map 2 also shows that cities in general grew slower than counties, in contrast to the Maoist period when cities were emphasized in industrialization and growth. Suzhou's growth rate, for example, was only 9.2 percent, much lower than that of Kunshan (21.9 percent). The slower growth of cities contributed significantly to the decline of overall intercounty inequality. By 1995, some counties in Sunan, such as Xishan, Wujin, and Wuxian, had even become richer (higher GVIAO per capita) than cities in Subei.

Map 2

Growth Rates of Per Capita Gross Value of Industrial and Agricultural Output in Jiangsu, 1978-95



While many factors have contributed to uneven regional growth in Jiangsu, the impact of fiscal and investment reforms requires particular attention. During the Mao era, Jiangsu's revenue was heavily transferred to the central government, and local spending and investment remained at a low level. With less state investment from the central government, few new SOEs were established in Jiangsu, and little funding was available for technological improvement. While Jiangsu attempted to develop its local economies by establishing TVEs, such enterprises were still less important than SOEs, and only blossomed during the reform period. Consequently, Jiangsu recorded slow economic growth and its status in the national economy declined slightly during the Mao era as a whole.

Within the province, while regions were generally poor, regional in-

equalities in Jiangsu actually increased. Although some efforts were made to develop backward counties in Subei, cities in Jiangsu recorded faster growth than rural areas (represented by counties), due largely to Mao's industrialization policy which favored the development of cities. On the other hand, policies under Mao were inconsistent. Local initiatives and decentralization policy during the late 1950s and early 1970s facilitated the growth of Sunan, mainly through the development of TVEs and the improvement of agricultural productivity. As a result, overall intercounty inequality increased, and the gap between Sunan and Subei persisted under Mao.

During the reform period, counties in Sunan benefited greatly from fiscal and investment reforms. The counties in Sunan, such as Xishan, Wujiang, and Kunshan, registered much faster economic growth than counties in Suzhong and Subei. Interregional inequality and rural intercounty inequality have risen rapidly. Deeper reforms for decentralization, marketization, and globalization created favorable conditions for the development of non-state enterprises. Fiscal and investment reforms have provided considerable incentives to the counties in Sunan, and contributed greatly to uneven development in Jiangsu.

While Jiangsu's upward transfer has been large, fiscal reforms allowed the localities to share increasing revenue, as long as they meet the quotas contracted to upper-level governments. Local governments and agents have been pursuing rapid revenue growth, and Jiangsu's revenue growth was among the highest in the nation. New fiscal systems were first implemented in Sunan, followed by Suzhong and Subei. Despite heavy upward transfer, Sunan was able to increase its revenue, retaining a portion for local spending. Moreover, to counter the heavy upward transfer, counties in Sunan have dramatically expanded extrabudgetary funds, which were mainly controlled by the localities and spent locally.

As the Chinese economy still relies very much on investment for growth, the regional gap in expenditure and investment has greatly contributed to regional inequality in Jiangsu. Sunan not only enjoys higher total and per capita investment, its investment also tends to be allocated in more efficient and fast growing TVEs and foreign-invested enterprises, while poorer Subei invests more heavily in slowly growing and lossmaking

SOEs. Moreover, the localities have provided more fiscal and investment incentives for foreign investors, and foreign investment also increased dramatically in Sunan. Heavy investment in education and technological advances make Sunan better positioned in terms of human capital and innovation. Such regional differences in investment have further differentiated Sunan and Subei in economic structure and their abilities to compete in the market economy.

Meanwhile, some counties in Subei have been struggling to balance their budgets and to accumulate more capital for investment. Subei's economy relied more heavily on SOEs, which paid higher taxes to the state and were less efficient in investment returns. With decentralization and weak fiscal capacity, the provincial government was less capable of providing more fiscal and investment support to these counties. The overwhelming concentration of foreign direct investment in Sunan's counties further intensified the north/south divide. Subei recorded slower investment and output growth. Consequently, the gap between Sunan and Subei has been rising, and the poorest counties in Subei have been struggling to improve their economic conditions.

Meanwhile, the cities, which had the highest GVIAO per capita and grew faster than did counties under Mao, recorded slower growth during the reform period. Strict central control over fiscal and investment systems, failures in reforming SOEs, and overburdened urban infrastructure have all contributed to the slower growth of the cities. More decentralized fiscal and investment systems have been extended to cities, but their growth rates remain lower than their surrounding counties. The slow growth of the cities and the relatively faster growth of counties in Sunan lead to the decline of overall intercounty inequality in Jiangsu, which is a by-product of economic reforms.

The intensification of the Sunan/Subei divide and rising regional conflicts have been a big concern of the provincial government of Jiangsu. Subei argued forcefully that favorable reform policies should be extended to Subei and that Subei should be emphasized in investment and growth. Corresponding to the Ninth Five-Year Plan of China which stressed the significance of the reduction of poverty and regional inequality, the provincial government of Jiangsu has also implemented its Ninth Five-Year

Plan which intends to accelerate the growth of Subei.²³ Indeed, since 1995, more efforts have been made by the provincial government to support the development of poorer regions, including personnel support, fiscal subsidies, low-interest loans, and the encouragement of interregional cooperation.²⁴ Considerable capital has been invested in infrastructure, agriculture, education, and industrial development in Subei. These efforts have, to a certain extent, improved the economies of poorer regions. However, the Sunan-Subei gap is not declining, and the development of poorer regions remains a challenging task facing governments.

Conclusion

Fiscal and investment reforms are important components of China's economic reforms. This paper has shown that dramatic changes have taken place in Jiangsu's fiscal systems and investment patterns. On the one hand, Jiangsu's revenue submitted to the central government has been large, and even increased during the 1990s. More developed provinces like Jiangsu tend to hand over more revenues to the center, furthered by ad hoc remittances and recentralization. However, counties and cities have used local strategies to create more extrabudgetary revenues for local spending, and consequently the provincial budget has been squeezed. Problems also exist between provincial and local fiscal systems, as bargaining and local protection still prevail. More efforts to improve local public finance are needed.

China's investment system has also experienced dramatic changes. Localities and the non-state sector have emerged as major agents financing regional development. With a declining proportion of investment controlled by local governments, regions are able to channel investment into

²³*Jiangsu nianjian* (Jiangsu almanac) (Nanjing: Jiangsu nianjian chubanshe, 1997).

²⁴Chu Dongtao et al., eds., *Benxiang xiaokang yu xiandaihua de Jiangsu* (Jiangsu toward a comfortable life and modernization) (Nanjing: Jiangsu renmin chubanshe, 1997); Song Linfei et al., eds., *Jiangsu jingji shehui xingshi fenxi yu yuce* (Analysis and prediction of Jiangsu's economic and social conditions) (Nanjing: Jiangsu renmin chubanshe, 1998).

more profitable sectors, especially TVEs. Sunan's counties in particular have taken advantage of investment reforms to stimulate local economic growth.

While fiscal and investment reforms have stimulated economic growth, these reforms have also contributed to a rising Sunan/Subei divide and rural intercounty inequality. However, central cities still struggle with fiscal control and problematic SOEs. While in the globalization and information age, competitiveness largely determines the wealth of regions, efforts should be made by the poor counties and the higher-level governments to improve the fiscal abilities of poorer regions. While many scholars still stress the redistribution approach, future development should move away from traditional zero-sum games and state-centered approaches. The emphasis should be to strengthen the competitiveness of regions and to maximize the usage of local resources. Such a strategy is better than redistribution, although more government support for the development of poorer regions is needed.

