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Research Note

Qinghai's Economic Development Strategy*

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There is considerable optimism in Qinghai concerning future economic development as this western province expects more funding from the central government in support of the grand strategy to develop western China. Since economic development and industrial expansion in Qinghai have been heavily dependent on project funding from the central government, heavy industries have been given priority. In terms of the generation of employment opportunities, however, heavy industries' contribution has been much more limited. The slow growth of light industries reflects a general lack of entrepreneurship in the province, and the shortage of em-

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*The author visited Qinghai province in June 2002 at the invitation of the Administration College of Qinghai (青海行政學院, the cadre training institute of the provincial government, which is also the provincial Party school). He interviewed cadres at various levels of government, academics, members of think-tanks, journalists, and leaders of mass organizations during his visit. These sixty or so interviews were conducted in Mandarin (國語, or *putonghua*, 普通話); they were unstructured and each lasted for over an hour. The article is largely based on these interviews. To facilitate the exchange of ideas, the interviewees have not been directly quoted. Instead, their views are summarized and presented as the author's observations; this extra care is taken to protect the anonymity of the interviewees, as people in an interior province of China are extremely sensitive to their views being published in a Taiwan-based journal.

ployment opportunities in the urban areas has reduced the attraction of education as a channel of upward social mobility. The predominance of the state sector partly explains the lack of entrepreneurship. The reform of state-owned enterprises does not seem to inspire much confidence. Issues of efficiency and profitability tend to be accorded lower priority, as the major objective is to maximize funding from the central government. Moreover, these problems have been exacerbated by the short supply of senior managers and technical personnel. More encouraging has been the development in recent years of the road and railway networks. The provincial authorities must now make greater efforts to attract investment from the coastal provinces. The inflow of investment will help to retain talent, increase urban employment, and make individual investment in education more attractive.

KEYWORDS: **Qinghai; economic development strategy; infrastructural development; comparative advantages; environmental protection.**

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Qinghai (青海) is an interesting province in western China. Its area of 721,200 square kilometers ranks the province as the 4th biggest in China —surpassed only by the three autonomous regions of Xinjiang (新疆), Tibet (西藏), and Inner Mongolia (内蒙古). With one-thirteenth of China's land area, Qinghai has a small population: 1.61 million in 1952, 3.65 million in 1978, and 5.17 million in 2000. Its gross domestic product (GDP) barely exceeded 30 billion *yuan* in 2001, a meager sum compared with those of the coastal provinces (Guangdong 廣東, for instance, had a GDP of 737.8 billion *yuan* in 2000). The province is rich in resources, however, including water, oil and natural gas, and salt lakes producing sodium, potassium, magnesium, lithium, boron, and iodine. There is also considerable potential for the development of wind and solar energy.[1]

[1]See *Qinghai tongji nianjian 2001* (Qinghai statistical yearbook 2001) (Beijing: Zhongguo tongji chubanshe, June 2001); Hu Yongke, ed., *Zhongguo xibu gailan: Qinghai* (A survey of western China: Qinghai) (Beijing: Minzu chubanshe, 2000); Wen Chengxue, ed., *Qinghai "shiwu" jingji shehui fazhan yanjiu* (Studies of economic and social development concerning Qinghai's 10th five-year plan) (Xining: Qinghai renmin chubanshe, 2001); and Gao Zhaoping, Liu Zhong, and Chen Xiaoxue, eds., *Zhongguo xibu dakaifa zhanlue yanjiu* (Study of the grand development strategy of western China) (Xining: Qinghai renmin chubanshe, 2000).

Qinghai certainly hopes to benefit from the Chinese leadership's "grand strategy to develop the west" (西部大開發, *xibu dakaifa*). In fact, provincial GDP grew by 9 percent in 2000 and 12 percent in 2001;[2] the people this author interviewed in Qinghai were ready to admit that the above national average growth rates were largely the result of grants from the central government for major infrastructural projects. Many noted that ten years ago, there was much construction work in Lanzhou (the provincial capital of Gansu 甘肅省會蘭州); now it is Xining's (西寧) turn to develop. During the period of the 9th Five-Year Plan (1996-2000), China achieved an average annual growth rate of 8.2 percent, lower than the 12 percent for the 8th Five-Year Plan period and the 9.8 percent for the entire post-1979 reform era. The Qinghai situation was different, however; the province's average annual growth rate was only 5.3 percent for the 7th Five-Year Plan period, 7.6 percent for the 8th Five-Year Plan period, 8.8 percent for the 9th Five-Year Plan period, and 7.2 percent for the entire reform era. Since 1998, Qinghai's annual growth rates have exceeded the national average.[3]

Much of this economic growth was generated by increases in fixed-asset investment. In the 9th Five-Year Plan period, cumulative completed fixed-asset investment amounted to 57.4 billion *yuan*, with an average annual growth rate of 21 percent. In the 7th and 8th Five-Year Plan periods, the respective average annual growth rates were only 5.3 percent and 4.8 percent. The national average annual growth rate for completed fixed-asset investment in the 9th Five-Year Plan period was 11 percent, 10 percentage points lower than that of Qinghai. Investments in Qinghai in energy supply, transportation, postal service and telecommunications, development of water resources, and urban construction in the 9th Five-Year Plan period

[2]Report from the Qinghai provincial government to the State Council's Office for the Development of the West, "Guanyu Qinghaisheng guanche luoshi xibu dakaifa zhanlue de qingkuang huibao" (Report on the situation in Qinghai Province concerning the implementation of the grand development strategy of the west) (June 12, 2002), 1 [hereafter referred to as "Qinghai provincial government report" (June 12, 2002)]. The report was given to the author by an official of the Qinghai provincial government.

[3]Wen, *Qinghai "shiwu" jingji shehui fazhan yanjiu*, 2.

were respectively 1.8 times, 2.9 times, 4.5 times, 4.2 times, and 13 times more than those in the 8th Five-Year Plan period.[4] Such increases in investment obviously came from the central leadership's plan to develop western China. Investment funds were flowing into Qinghai even before the formal announcements on the development of western China were made. The Chinese leadership was already concerned with poverty alleviation and the reduction of the gap between the coastal provinces and the interior before the drafting of the 9th Five-Year Plan. In line with the usual practice, major policy announcements—made in 1999 and 2000—came after work had already been begun for some years.

The Grand Development Strategy of Western China

In discussions on the development strategy of western China, the Chinese leadership as well as provincial leaders often refer to Deng Xiaoping's (鄧小平) statement in 1988 on the "two macro-situations" (兩個大局, *liangge daju*). At that time, Deng said that the coastal region's accelerated opening to the outside world would lead to economic growth that, in turn, would facilitate the development of the interior. He asked the interior provinces to support this "macro-situation"; in turn, he promised that after a period of time the central government would ask the coastal region to help the development of the interior, the so-called second "macro-situation."[5] During Deng's "Southern Tour" (南巡, *nanxun*) in early 1992, he hinted on a vague timetable. He indicated that at the end of the twentieth century, when Chinese people would enjoy a relatively comfortable standard of living (小康, *xiaokang*), the development of the interior would be a prominent issue to be tackled. With the dawning of the twenty-first century, leaders of the interior provinces believed that—after years of discussion and preparatory work—the time had finally come for the de-

[4]Ibid.

[5]Deng Xiaoping, "The Central Leadership Must Have Authority" (September 12, 1988), in *Selected Works of Deng Xiaoping*, vol. 3 (Beijing: Foreign Languages Press, 1994), 271-72.

velopment of the western region.[6]

From 1999 onwards, Jiang Zemin (江澤民) and other Chinese leaders have clearly been according the development of the western region a much higher priority. In June 1999, at a conference on poverty alleviation and development work, Jiang emphasized the need for the gradual narrowing of the development gap among regions in China in order to achieve common prosperity. He also indicated that the conditions were ready for the acceleration of the development of central and western China. The central government would continue to strengthen such support, especially for the western region. Priority would also be given to such areas as irrigation; the development of water resources, electricity, and transport; environmental protection; and the exploitation of natural resources. The developed regions in the east would continue to support the poor regions in the west.[7]

Later that month, Jiang Zemin spoke on the same subject at a forum on both the reform of state-owned enterprises (SOEs) and the development of the five northwestern provinces. Jiang stressed that, given the beginning of the new century, China must not lose any opportunity to accelerate the development of central and especially western China. Advancing the situation in the west was a development strategy related both to the macro-situation as well as to the maintenance of the long-term stability and good governance of the Party and nation. This development not only had important economic implications, but significant political and social implications as well. Jiang also referred to the ecological deterioration in the west, which had proven damaging to the development of the west and other regions as well. Since many minorities are concentrated in the west, acceleration of the development of this region would contribute to its political and social stability. In terms of support from the central government, Jiang pledged: priority to infrastructural development projects in the west; support for technological innovations and adjustments in product structure; stronger assistance in increasing capital inputs and reducing debts for the

[6]Gao, Liu, and Chen, *Zhongguo xibu dakaifa zhanlue yanjiu*, 8-9.
[7]*Renmin ribao* (People's Daily) (Beijing), June 10, 1999.

region's SOEs (as part of the arrangements both for the *xiagang* [下崗]/ unemployed and in the establishment of a social security system); and enhancement in fiscal transfer payments for the central and western regions.[8]

Premier Zhu Rongji (朱鎔基) was heavily involved in the planning of the development of the west. Following his investigative work in Shaanxi (陝西), Yunnan (雲南), and Sichuan (四川), Zhu visited Gansu, Qinghai, and Ningxia (寧夏) in October 1999. Zhu placed the development of the west in the context of realizing the second and third stage strategic objectives in China's modernization process. Zhu spelled out his priorities in the development of the west as follows: (1) acceleration of infrastructural development, especially both projects related to the transport links with the coastal areas and those concerning the development of water resources; (2) strengthening of environmental protection; (3) adjustments in the industrial structure; (4) promotion of education, as well as science and technology; and (5) stepping up the process of reform and opening up to the outside world, as well as incorporating the new laws and regulations related to China's entry into the World Trade Organization (WTO) into the strategy of developing western China. Regarding adjustments in the industrial structure, Premier Zhu encouraged both economic activities reflecting regional characteristics and industries with comparative advantages. In agriculture, the emphasis was to be placed on such areas as agricultural products with regional characteristics, water-saving agriculture, and ecological agriculture. In terms of industry, priority would be given to the rational exploitation of mineral resources and the development of high-tech and innovative industries. Zhu also highlighted tourism as a growth point in service industries.[9] Finally, during the third session of the 9th National People's Congress (NPC) in March 2000, Jiang Zemin met delegations from Qinghai, Gansu, and Xinjiang and further emphasized the need to accelerate the development of the west.[10] Many top leaders in China also commented on the development of the west, with their statements being

[8]Ibid., June 19, 1999.

[9]*Qinghai ribao* (Xining), November 1, 1999.

[10]*Renmin ribao*, March 6, March 9, and March 14, 2000.

widely reported in Chinese mass media, especially those in the western region.[11]

Premier Zhu Rongji's priorities and instructions gradually evolved into a grand development strategy for western China, though this overall project has never been made explicit in an official document. An Office for the Development of the West (西部開發辦公室) has been established within the State Council to oversee the various individual development programs. The office, reporting directly to Zhu, is thought to have considerable influence over resource allocation. Based on the feedback from the western provinces, the actual implementation (including funding) of the development programs of the grand strategy is still evolving.

The Strengths and Weaknesses of the Qinghai Economy

Before discussing Qinghai's strengths and weaknesses, a survey of its rankings in various aspects vis-à-vis China's other thirty provincial units may be helpful. In terms of land area, Qinghai ranks 4th; yet in 2000, this province ranked 30th in terms of GDP and value-added in primary industries, and ranked 29th in terms of value-added in secondary and tertiary industries. Again, Qinghai ranked 30th in terms of local fiscal revenues, total social consumption retail sales, and foreign trade. However, in terms of the GDP growth rate in 2000, this western province ranked 15th. In terms of labor productivity, Qinghai ranked 25th in 2000. The province ranked 21st regarding per capita disposable income among urban residents (5,170 *yuan*), and 26th regarding per capita net income among rural residents (1,491 *yuan*). In terms of salt and oil production, Qinghai ranked 10th and 11th respectively in 2000.[12]

Following Premier Zhu Rongji's guideline for developing the provincial economy based on its special characteristics, Qinghai has identified the

[11]For a sample of these statements, see Gao, Liu, and Chen, *Zhongguo xibu dakaifa zhanlue yanjiu*, 26-52.

[12]*Qinghai tongji nianjian 2001*, 427-47.

following as the province's economic foundation: salt chemical industries, hydroelectric power, oil and natural gas, nonferrous metals, plateau agriculture and pastoral industry, tourism, and Chinese and Tibetan medicine.

Plateau agriculture and pastoral industry have been developing fast, and their role in economic development has been increasing; the scale of these industries remains limited and they are geographically dispersed. Processing of these agricultural and pastoral products is still at a primary level due to a lack of large-scale enterprises; hence the industrialization of agriculture and pastoral industry has yet to be realized. Resource-based industries have been the backbone and growth point of Qinghai's economy. These include energy industries based on hydroelectric power and the exploitation of oil and natural gas; salt chemical industries based on the exploitation of the province's salt lakes; the metallurgical industries based on the refining of nonferrous metals; light and textile industries based on the processing of agricultural and pastoral products; and machinery industries based on the manufacture of machine tools and engineering machinery. There are a number of industrial enterprises which have been producing competitive products with established brand names; industrial technological progress has been slow, however, and the capability to innovate is far from satisfactory. The industrial structure focuses on the exploitation of raw materials, with the province boasting few technology-intensive and high-tech enterprises. As a result, Qinghai's resource-based industries are not very competitive. The tourism industry has been developing rapidly as well, and has been perceived as a significant growth point in the provincial economy. The province's handicaps are the wide dispersal of scenic spots, the underdevelopment of transport facilities and other services, and inadequate investment in the tourism industry.

Economic experts this author met in Qinghai have summarized the province's economic problems as follows. First, they recognize that the comparative advantage of the province's resource-based industries has been weakening because of the reform of the national economic structure, the rapid development of new and high-tech industries, and China's entry into the WTO. In view of general advances in science and technology, the resource-poor coastal provinces now have more options in satisfying their

demand for energy and industrial raw materials. Such technological advancements have reduced their dependence on Qinghai, whose exports of resources have simultaneously also been threatened by imports. Since the late 1980s, due to the rapid growth of the coastal provinces' processing industries and the leveling of domestic and international prices for resources, the scale of imports of foreign resources has been expanding. China's WTO membership will certainly reinforce this trend.

Qinghai's location is also perceived as a weakness, one compounded by the province's underdeveloped transport infrastructure. High transportation costs reduce the competitiveness of local products. The Qinghai authorities are aware of the province's isolation—Qinghai's density of highways, according to knowledgeable interviewees, is only one-fifth of the national average, and the province's density of railways is a quarter of the national average. Even more striking is that these figures are also below the average for western China.[13] Access to the Internet and information technology remain backward as well.

The brittleness of the province's ecology has attracted much concern. The rate of vegetation coverage is low; the degradation of grassland, desertification, the rising salinity of agricultural land, lack of water resources, and uneven resource distribution are all serious obstacles to economic development. As a raw materials production base, Qinghai's aged industrial plants have become significant sources of pollution, with environmental protection now urgently requiring investment.

Qinghai is among the least developed provinces in terms of education, science, and technology; the quality of its labor force has a miserably low ranking as well. In 2000, Qinghai ranked 30th (just above Tibet) in science and technology among China's provincial units, while ranking 29th in terms of foundation for scientific and technological progress, 31st in science and technology inputs, and 28th in terms of promoting socio-economic progress by science and technology.[14] Finally, the provincial authorities admit that the province has severe financial difficulties and has

[13]Wen, *Qinghai "shiwu" jingji shehui fazhan yanjiu*, 12.
[14]Ibid.

been heavily dependent on subsidies from the central government. Clearly, much must be done in such areas as: infrastructural development; environmental protection; the development of education, research, and technology; and improving people's living standards.

While recognizing the above weaknesses, Qinghai's economic experts have been trying to exploit the province's comparative advantages. They believe that the new structure of the international division of labor will accelerate the transfer of capital- and technology-intensive industries from the developed to the developing countries. Since the end of the 1990s, capital-intensive industries, the labor-intensive operations of high-tech industries, and the processing of their non-core-technology products have all been moving to the developing world with greater speed. Such transfers are seen to favor Qinghai's economic development.

At the same time, the domestic economic environment has imposed new demands. The conditions of structural-surplus capacity and the current buyer's market will continue to dominate, forcing Qinghai's economy (based on its special characteristics) to be market- and comparative advantage-oriented. In terms of the latter, the province's comparative advantages have to be transformed into a competitive edge for its enterprises. Qinghai's economic development will have to be less dependent on support from the central government, and rely more on investment through the cultivation of the capital market as well as via attracting investment from both the coastal provinces and foreign countries. It is significant that all local governments at and above the county level have recently established offices to attract investment, each producing glossy publicity materials introducing their projects.

Investment funds are particularly needed for improvements and technological innovations in the province's aging SOEs in the resource-based industries. Obvious priorities are the reinvigoration of the existing salt chemical and nonferrous metallurgical industries through the introduction of new and innovative technologies; the development of new high-tech industries in the pharmaceutical and biotech areas; and the development of salt lake resources. Technological innovations are expected to assume an important role in the reform of SOEs, not only in reducing unemployment

but also in generating new growth points in the province's economic development. China's entry into the WTO means that Qinghai too must plan its economic structural adjustments and improve its international competitiveness in the context of meeting the challenges of globalization. Finally, the provincial authorities are aware that environmental protection will continue to attract much attention from both the central government and the international media, and hence the province must perform well in this area.

Assessing Qinghai's Economic Assets

Through the central government's grand strategy to develop western China, Qinghai and other western provinces are expected to benefit from favorable treatment in fiscal transfer payments, allocation of major infrastructural projects, and investment funds from the issue of treasury bonds. A very important task is the adjustment of the industrial structure to reflect local comparative advantage. Qinghai has high hopes for planned projects to transport natural gas from the west to the east, to send electricity from the west to the east, and to link Qinghai and Tibet by railway. Following the examples of other western provinces who have identified their pillar industries, Qinghai plans to develop itself into a base for sectors such as salt chemicals, plateau agriculture and pastoral industry, Tibetan medicine processing, plateau ecological tourism, hydroelectric power (to supply China's northwest and even the entire western region), and nonferrous metallurgical industry. Also targeted are the production and processing of oil and natural gas and the production of specialized machinery.

Industrial Production Based on the Salt Lakes

The development of salt lake resources has focused on the production of potassium fertilizers, with the production target now set at 1.5 million tons per annum by 2005, up from 0.6 million tons at the end of the last century. China's potassium fertilizer industry has been suffering from inadequate production capacity, being unable to satisfy the demand from the agricultural sector. The Qinghai Potassium Fertilizer Plant is now engaged

in expansion to enlarge its production capacity and improve its technological level—so that in the period 2005-2010, the production capacity of potassium chloride will be raised to 3.5 million tons per annum, with actual production amounting to 2.8-3 million tons. Lithium salts, strontium carbonate, and products based on sodium, magnesium, and boron derived from the salt lakes will also be given priority in the salt chemical industries.

In this development, support from advanced research institutes is essential. There is need to improve the technological level and reduce production costs so that Qinghai's chemical products will be competitive internationally. The central government, unfortunately, has been concentrating on major infrastructural projects in the development of the west and has neglected the enhancement of the region's research and development capabilities. The Qinghai authorities, for example, consider the development of lithium salts significant because the manufacture of lithium ion batteries is expected to become an important industry. Between the exploitation of lithium salts in the salt lakes on the one hand, and the production of advanced, cost-effective lithium ion batteries on the other, much research, development, and investment is needed. Similarly, magnesium and magnesium alloys have an important role in the aerospace, automobile, electronics, telecommunications, and household electrical appliance industries. Qinghai's economic experts hope to develop advanced technology to produce high value-added products, especially magnesium chloride, magnesium metal, and pure magnesium sand. The province secured the key technologies to launch a magnesium industry in 2002. Finally, the provincial authorities plan to use the existing manufacturing facilities to produce strontium carbonate at the Guangming Chemical Industrial Plant as the foundation to introduce new technologies and produce new products. The priorities are to raise the purity of the strontium carbonate produced and to engage in research and development related to the production of strontium compounds and alloys.

Linking Hydroelectric Power Generation and the Aluminum Industry

Qinghai has a distinct comparative advantage in hydroelectric power,

and the Qinghai government considers that the development of hydroelectric power and high energy-consumption products will have the central government's support. The cost of building a hydroelectric power plant in Qinghai is only 60-70 percent that of constructing one of the same scale in other provinces, and the cost of resettling the affected residents is minimal. Qinghai's economic planners therefore intend to combine hydroelectric power generation and the refining of nonferrous metals, especially aluminum. Linkage of this kind benefits from economies of scale, yet may lead to pollution problems if adequate care is not taken. Qinghai hopes to develop a nonferrous metals production base at the end of the 10th Five-Year Plan period (2001-2005), focusing on aluminum and magnesium, with a capacity to produce by electrolysis 300,000 tons of aluminum, 80,000 tons of lead, and 60,000 tons of zinc ingots per annum.

Oil and Natural Gas

The expectation is that Qinghai's status as a producer of oil and natural gas within China will continue to rise. In the 10th Five-Year Plan period, Qinghai will step up its exploration of oil and natural gas in the Chaidamu Basin (柴達木盆地), continue to build the infrastructure to supply natural gas to the coastal provinces, and strengthen its petrochemical industrial base. Given the current buyer's market and increasing competition resulting from China's entry into the WTO, the Qinghai authorities appreciate that the province's petrochemical industries have to be small in scale yet highly advanced in technology. The production of epoxypropanol (oxiran-2-ol), an important raw material required in the production of refined chemical products, is a good example. China presently must import epoxypropanol in large quantities, while Qinghai has done considerable preparatory work to produce this material locally. The Qinghai government is now actively looking for foreign investment to engage in import substitution, a move which would represent a breakthrough in the province's petrochemical industry.

Plateau Agriculture and Pastoral Industry

Qinghai's agricultural experts believe that the cool plateau climate,

rich bio-diversity, and pollution-free ecology are the province's comparative advantages just waiting to be exploited. Priority therefore should be given to the expansion in the scale of production of counter-season vegetables, the growing of Tibetan medicinal herbs, the cultivation of cold-water fish, and the domestication of rare wild animals. Future development of plateau agriculture and pastoral industry will depend on the following strategies: (1) the application of science and technology and the extension of the production chain via more sophisticated processing work; (2) the continued development of major agricultural enterprises to increase scale, improve the technology level, introduce more high value-added and other new products, and enhance marketing; (3) attracting major enterprises to develop business ventures in the agricultural sector and establish major distribution and marketing networks; and (4) accelerating the establishment of specialized production bases for plateau agriculture and pastoral industry.

Furthermore, other possible new industries include a "green food" industry with an emphasis on pollution-free production, a pharmaceutical industry based on traditional Tibetan medicine, and biotech industries based on the plant and animal resources of the plateau.

Tourism Industry

The Qinghai authorities have considerable confidence in the potential of the province's tourism industry. They believe that the anticipated growth in both China's tourism industry and the province's many spectacular scenic spots will eventually attract many tourists to Qinghai. Priority is now given to the attraction of external capital to develop the province's tourist facilities, which remain underdeveloped at present.

Policy Measures to Promote Economic Development

The priorities in the development of the western region as defined by Premier Zhu Rongji constitute important guidelines for the Qinghai leadership in formulating the province's development policies. Obviously there

is too much dependence on the central government for funding support—as recognized by all the cadres, academics, and journalists interviewed by the author.[15] An article in *Qinghai xuekan* (青海學刊, Qinghai Academic Journal) in 2001 appeals for the creation of a "Qinghai plateau spirit," which involves: (1) transforming patience and forbearance into hard work, a willingness to struggle against problems, and entrepreneurship; (2) abandoning the lack of confidence and unwillingness to move ahead quickly for a pioneering spirit ready for exploration and experimentation; (3) trying to seek solutions from the market instead of from one's superiors; (4) broadening one's horizons and being ready for the opening to the outside world; and (5) switching from the extensive to intensive mode of development, with an emphasis on science and technology as well as management.[16] The appeal demonstrates the awareness of the need to change values in order to promote economic development. As industrial development has already been discussed above, this section will concentrate on sources of funding, education and the attraction of talent, agricultural development, poverty alleviation, and environmental protection.

Sources of Funding

The Qinghai authorities place high priority on seeking funding support from the central government in the form of: appropriations from the budget for infrastructural projects, preferential loans from the state policy banks, and aid money from both international financial institutions (such as the World Bank) and foreign governments. The provincial government has been seeking to secure funding support for infrastructural projects, especially those related to water resources, transportation, and energy. In the report to the State Council from the Qinghai provincial government in

[15]Also noted in Liu Chunyao, "Qinghai dakaifa bixu zouchu shida renshi wuqu" (Qinghai's development must remove ten erroneous ideas), *Qinghai xuekan*, 2000, no. 3, collected in *Qinghai shengqing yanjiu* (Studies of Qinghai Situation), compiled by the Library of Qinghai Provincial Party School), September 1, 2000, no. 1:10-11.

[16]Qu Qingshan, Li Jihua, and Qin Shuguang, "Xibu dakaifa yu Qinghai gaoyuan jingshen" (Development of the west and the Qinghai plateau spirit), *Qinghai xuekan*, 2001, no. 2, collected in *Qinghai shengqing yanjiu*, June 1, 2001, no. 2:29-30.

June 2002, a number of important infrastructural projects were highlighted. These included the construction of Sebei (澀北)-Xining-Lanzhou natural gas pipeline which was completed in October 2001; the Qinghai-Tibet railway which was begun in June 2001 and whose Geermu (格爾木)-Wangkun (望昆) section will be completed at the end of 2002; the Gongboxia (公伯峽) hydroelectric power station with a capacity of 1.5 million kilowatts which began construction in July 2001; and the establishment of a potassium fertilizer plant with an annual capacity of one million tons. In addition to the above national infrastructural projects, a number of provincial projects have also begun. These include the building of a highway between Xining and Ping'an (平安), improvement of the Xining-Geermu section of the Qinghai-Tibet railway, the construction of two reservoirs at Heiquan (黑泉) and Gouhou (溝後), the Wulan (烏蘭)-Geermu electricity transmission line, a rural electricity transmission network, a highway between Machangyuan (馬場垣) and Ping'an, and a first-grade road linking Xining and Huangyuan (湟源); as well as the improvement of school buildings and urban facilities such as roads and sewerage/waste disposal systems.[17]

Officials in Qinghai hope to see a foundation established for the promotion of development in the west, as well as specific funds for defined categories of projects in western China, including mutual funds for equity investment, closed funds for investment in industrial enterprises, venture capital investment funds, and non-profit-oriented funds for human resources development. They have asked the central government to encourage the prosperous coastal provinces to invest in Qinghai, to support key infrastructural projects there by offering interest subsidies financed by state bonds, and to increase fiscal transfer payments to Qinghai for development projects in such sectors as agriculture, social security, education, medical care and health, and environmental protection. In 2000, general fiscal transfer payments to Qinghai from the central government reached 443 million *yuan*, an increase of 11.3 percent over the previous

[17]"Qinghai provincial government report" (June 12, 2002), 2-3.

year; in 2001, such payments reached 500 million *yuan*, an increase of 12.8 percent. Fiscal transfer payments from the central government to the national minority areas in the province amounted to 226 million *yuan* in 2000 and 304 million *yuan* in 2001, increasing 20.2 percent and 34.5 percent over the previous year respectively. From 1999 to 2001, subsidies from the central government to augment salary payments in Qinghai reached 1.029 billion *yuan*.[18] Preferential tax treatment for new industries and enterprises has also been proposed. The central government normally demands that provincial governments provide a share of the funding required for each major infrastructural project. In view of the shortage of funds in Qinghai and the increase in infrastructural projects, the provincial government has formally requested a reduction in the province's share of capital for such projects.

At present, there is an increasing awareness among Chinese leaders that money spent on infrastructural projects may secure only diminishing returns, and therefore greater emphasis should be placed on improving credit supply to the small and medium-sized enterprises in the private and collective sectors. These are obviously the weak spots in the Qinghai economy; Qinghai leaders have yet to propose initiatives in this regard.

In the 10th Five-Year Plan period, Qinghai plans to achieve a double-digit growth rate every year, with primary industries growing 4 percent per annum on the average, secondary industries 11.5 percent, and tertiary industries 10.5 percent. In 2005, leaders expect the province's GDP to reach 41.7 billion *yuan*, with per capita GDP amounting to 7,500 *yuan* (both figures quoted in 2000 prices). In the 10th Five-Year Plan period, fixed-asset investment will reach 110 billion *yuan*, increasing 14.5 percent annually on the average—representing a rise of 94.7 percent over that in the 9th Five-Year Plan period. Government funding will come to 36 billion *yuan*, about 32.7 percent of the total; bank loans will amount to 33.8 billion *yuan*, about 30.7 percent of the total; 31.6 billion *yuan*, or 28.7 percent of the total, will be raised by enterprises and institutions themselves; and for-

[18]Ibid., 8.

eign investment is expected to reach 8.5 billion *yuan*, or 7.7 percent of the total.[19]

While there have been many suggestions on how to attract foreign investment, concrete action has been limited. In 2000 and 2001, foreign investment exceeded US$300 million. In these two years, annual investment and trade fairs were held to attract enterprises from the coastal provinces to participate in the adjustments of the economic structure of western China; Qinghai managed to lure 5 billion *yuan* altogether.[20] Again, Qinghai officials have been appealing to the central government for special policy treatment in order to increase the sectors open to foreign investment in the province; they also hope to attract foreign investment through the build-operate-transfer (BOT) model. There have also been proposals to establish tariff-free zones in Xining and Geermu.

Education and the Attraction of Talent

Following the central government's policy line, the provincial authorities have raised the slogan "developing Qinghai by science and education." In 2000, 8 tertiary institutions in Qinghai had 13,307 students (about 17,900 students in 2001), with 6,105 new recruits for the year, compared with a total of 3,538 students in 1978 when the annual intake was only 1,314 students. In the same year, there were 224,660 students attending 448 ordinary secondary schools, with an annual intake of 86,540, compared with a total of 209,100 students in 1978 when the annual intake was 78,600. In addition, there were 13,406 students attending vocational schools at the secondary level, compared with 7,966 in 1978. In 2000, there were about 504,800 students attending 3,429 primary schools, with an annual intake of about 93,600, compared with a total of 599,000 in 1978 when the annual intake was 133,800. In terms of the enrollment rate for primary schools for children in the appropriate age bracket, the figure rose moderately from 85.5 percent in 1978 to 94.2 percent in 2000; the proportion of primary

[19]Wen, *Qinghai "shiwu" jingji shehui fazhan yanjiu*, 48.

[20]"Qinghai provincial government report" (June 12, 2002), 5.

school graduates moving on to junior high schools decreased from 92.1 percent in 1978 to 88.7 percent in 2000, and that of junior high school graduates moving on to senior high schools rose from 58.8 percent in 1978 to 66.4 percent in 2000. For every 10,000 people in Qinghai, the number of primary school students in fact decreased from 1,642 in 1978 to 974.5 in 2000, while the number of secondary school students decreased from 573 in 1978 to 433.7 in 2000; the number of secondary school students in vocational schools (including teachers' training colleges) decreased from 37 in 1978 to 33.5 in 2000; and the number of tertiary students increased substantially from 10 in 1978 to 25.7 in 2000.[21] The population in the province was thus likely younger in 1978 than that in 2000.

Education is a serious problem in a backward province like Qinghai. Widespread poverty and the low population density are obvious handicaps. Furthermore, the small number of job opportunities available for the educated in urban areas reduces the significance of education in the eyes of poor peasants, especially those in the national minority areas. Shortages of both funding and teachers are the natural consequence of the province's poverty and backwardness. At the end of 1999, dangerous school buildings in tertiary institutions, secondary vocational schools, secondary schools, and primary schools amounted to 3,300 square meters, 30,000 square meters, 54,700 square meters, and 91,900 square meters respectively. In fact, very few schools actually met the required standards. In view of the difficult living conditions and the considerable disparity in living standards between the coastal and western provinces, it is not surprising that many teachers in Qinghai have left the education sector. In 1995 alone, the province lost over 1,000 primary school teachers and more than 400 secondary school teachers—most of whom were experienced teachers. In 2000, 94.31 percent of the primary school teachers possessed the required academic qualifications, and 81.57 percent of the junior high teachers as well as 46.92 percent of the senior high teachers met the same condition. There is also a general shortage of music, art, physical education, and English

[21] *Qinghai tongji nianjian 2001*, 4, 339-42.

teachers.[22]

Education for the national minorities is particularly costly. Most schools in the national minority areas are boarding schools and the students must be heavily subsidized; such schools are thus four to five times more expensive than ordinary rural schools in China. A study of the NPC Standing Committee indicates that producing a primary school graduate in a Tibetan minority area in Qinghai costs just as much as producing a master's degree holder in the more developed areas of China. In the pastoral areas, the enrollment rate for primary schools was only 70.33 percent in 1999. Moreover, reducing the illiteracy rate in the province remains a priority. A total of 1,098,516 children over six years of age remained illiterate in 2002, 934,283 of whom were over fifteen years old.[23]

The Qinghai authorities recognize the importance of education in promoting economic development, and they plan to narrow the gap between Qinghai and the more developed provinces in China. While both the social and economic functions of education are being considered, the latter will be given priority. The provincial leaders obviously feel the pressure to accelerate the development of free education and to raise the enrollment rates for primary education and junior secondary education (as well as the number of years of free education for the population), but they believe that gains in efficiency should be the key. In this regard, the establishment of a fair and scientific evaluation system as well as the reform of the educational curriculum will be treated as immediate tasks. Vocational education at the secondary level is perceived to be underdeveloped in Qinghai; hence more resources will be devoted to this sector. Finally, Qinghai officials tend to see religion as having a negative influence on education for the following reasons: many people in Qinghai offer considerable donations to temples, thus reducing the amount of money which can be spent on children's education; some children drop out from public school for mon-

[22]Cheng Qiyu, chap. 1: "Jiaoyu" (Education) of the section on society, in Hu, *Zhongguo xibu gailan: Qinghai*, 193.

[23]The figures are based on the fifth census in China. See *Qinghai tongji nianjian 2001*, 47.

astery education; and religious education in Qinghai is rather conservative and even obsolete in many aspects.

Educated people leaving Qinghai for the coastal provinces has caused great concern. In the author's interviews, almost every interviewee had one or two stories to offer in regard to the exodus of talent from the province. Beginning in 2000, the provincial government has offered two million *yuan* every year to send one hundred cadres and one hundred SOE managers for training in the developed regions in China. This scheme will last for five years.[24] The Administration College of Qinghai (青海行政學院) was, during the author's June 2002 visit, negotiating with an American university in Georgia to hold joint training courses for the province's senior cadres with the intention of sending the trainees to visit the United States for short periods. At that stage, funding appeared to be an obstacle.

The provincial authorities claim to have established a more flexible personnel system both to retain and to allow talented cadres to fully develop their potential. The authorities have also come up with a set of preferential guidelines to attract overseas postgraduates. In 2001, it was reported that Qinghai managed to attract twenty-two top professionals through such preferential treatment. Only limited progress is expected in the attraction of talent to Qinghai; more fruitful may well be linkages and cooperation programs to encourage leading think-tanks and research institutes in China to accept consultancy work to serve Qinghai. Given reasonable remuneration, there should be no shortage of experts willing to work in Qinghai for limited periods.

Agricultural Development and Poverty Alleviation

Agricultural experts in Qinghai believe that the two-tier management system should play a significant role in rural development in the province. While the household responsibility system will be upheld, the rural collective economy—including collective purchases of agricultural inputs, collective marketing of products, and development of township and village

[24]"Qinghai provincial government report" (June 12, 2002), 6.

enterprises (TVEs)—holds the key to raising rural incomes. They recognize that government policy, science and technology, and capital inputs will be the most important variables affecting agricultural development. In 1999, there were about 7,000 peasant technicians working in the fields, and the contribution of science and technology to agricultural production reached 43.5 percent. The province had 146,000 pieces of agricultural machinery that handled 48.9 percent of the plowing, 41.8 percent of the sowing, and 16.8 percent of the harvesting.[25]

Peasants have been encouraged to reduce grain production and increase the amount of land devoted to raising cash crops. In 2001, 38 percent of planted land was devoted to cash crops, compared with 13.4 percent in 1975; oilseeds, lentils, potatoes, counter-season vegetables, Chinese and Tibetan medicinal herbs, and flowers have, for instance, been expanding at the expense of spring wheat, highland barley, etc.[26] The provincial authorities have been encouraging the establishment of production bases for grain, oilseeds, lentils, vegetables, and fruits both to secure the benefit of economies of scale and to encourage the marketization of agriculture, especially contract agriculture (i.e., contract production to meet the demand of major business enterprises). At the same time, the relative importance of the pastoral industry has been increasing—from 40 percent in 1999 to 49.5 percent in 2001 in terms of the total output value of agriculture/pastoral industry. The same applies to that of nonagricultural production and services in the rural economy, which rose from 12.8 percent in 1999 to 17 percent in 2001.[27] Cattle and sheep are now raised in western Qinghai, to be fattened in the rural areas in the east at a later stage; this strategy has contributed to an increase in meat production.

In view of both the deterioration of the environment and high population growth (at the rate of 100,000 people per annum in the 10th Five-Year Plan period), increases in rural income will have to depend heavily on

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[25]Xu Cunshi, chap. 1: "Nongye" (Agriculture) of the section on the economy, in Hu, *Zhongguo xibu gailan: Qinghai*, 38-39.

[26]Ibid., 37; and "Qinghai provincial government report" (June 12, 2002), 3.

[27]"Qinghai provincial government report" (June 12, 2002), 4.

TVEs. It is expected that their value-added will grow at the rate of more than 18 percent per annum in the 10th Five-Year Plan period, while that of agriculture, forestry, pastoral industry, and fishery will only grow at the rate of 4 percent per annum. By 2005, secondary and tertiary industries will be expected to contribute more than 60 percent of the gross output value in rural and pastoral areas: pastoral industry will contribute more than 50 percent while forestry and fishery will contribute more than 10 percent. Per capita net income for peasants and herdsmen will grow 6 percent per annum in the 10th Five-Year Plan period.[28]

Development of TVEs in turn will depend on the development of small cities and towns in rural and pastoral areas which are perceived as growth points and breakthroughs in the economic development planning. The provincial authorities intend to accelerate the supply of water and electricity, the building of roads, and the establishment of telecommunications facilities. They also intend to improve the cultural, medical, educational, marketing, and agricultural technical services for such small cities and towns in transport connection-points and traditional markets. Small industrial zones will then be promoted in suitable small cities and towns. Residents from rural and pastoral areas who have been residing in small cities and towns for a long time and who have legal sources of income will be allowed to register as residents; a social security system will also be established. Small cities and towns therefore have been given the responsibility of absorbing the surplus labor from the rural and pastoral areas.

Agriculture is expected to decline (due to past overcultivation), and some of the arable land inappropriately reclaimed is to be turned back into forests and grasslands. This work began on a considerable scale in 2000: in 2000 and 2001, 0.52 million *mu* of arable land were turned back into forests and grasslands.[29] Despite the decline in grain production from 1.036 million tons in 1999 to 0.827 million tons in 2000 (a severe drought also contributed to the decline), the provincial authorities believed that they

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[28]Wen, *Qinghai "shiwu" jingji shehui fazhan yanjiu*, 178-80.

[29]"Qinghai provincial government report" (June 12, 2002), 3.

had adequate food supply to continue the program.[30] Every rural household willing to abandon one *mu* of arable land has been given 100 kilograms of grain per annum for an unlimited period of time; the cost of transporting the grain has been borne by the state; the state has also provided free of charge to rural households young trees and grass seeds, normally charged at the rate of 50 *yuan* per *mu*; and rural households have received 20 *yuan* per *mu* abandoned as a living allowance and have enjoyed a waiver on agricultural taxes. The generous terms reflect the central government's concern for afforestation to preserve water resources and avoid floods downstream.[31]

Poverty alleviation is an important part of development work in the rural and pastoral areas in Qinghai. In line with the central government's policy program and financial resources given to the province, the provincial authorities claimed that those living below the poverty line had been reduced from 1.195 million at the end of 1993 to 0.4147 million in 1999, and that the poverty rate in the rural areas also fell from 38.37 percent to 11.06 percent in the same period.[32] The causes for poverty are often summarized as follows: poor natural environment, low level of productivity, slow economic development, deterioration in the ecology, serious soil erosion, uniform economic structure, limited sources of popular incomes, low level of education, and geographical isolation coupled with backward infrastructural facilities.

In recent years, the provincial government initiated three major programs to reduce poverty in certain backward areas. In southern Qinghai, a program to improve the basic construction of the grasslands was introduced in the 1994-99 period. At this time, a program was also launched to transform the hill slopes into terraces to better retain water in the arid lands in eastern Qinghai, and water storage facilities were also built. Finally, people living in extremely difficult conditions in the dry areas of eastern Qinghai would be resettled in the Chaidamu Basin. Most of the money that

[30]*Qinghai tongji nianjian 2001*, 199.
[31]Xu, "Nongye," 41.
[32]Wen, *Qinghai "shiwu" jingji shehui fazhan yanjiu*, 191.

has come from the central government has been used to fund various relief programs in which people receive subsidies in return for engaging in work projects designed to contribute to local economic development. The projects normally involve constructing irrigation facilities, building roads, and digging wells. Some money from the central government—together with matching funds from the local governments—is used to build schools in designated poor counties. Local governments in the poor areas have been encouraged to concentrate on technical training programs for both peasants and herdsmen to enable them to lift themselves out of poverty.

The author's interviewees tended to believe that the provincial authorities had not accorded sufficient priority to poverty-alleviation programs. In general, the achievements and results of such programs depend much on the performance of middle-ranking cadres at the county and township levels. Here the quality of cadres varies, however. Apparently corruption had been a problem as well.

Environmental Protection

Environmental protection has special significance in Qinghai because Qinghai is the source of the Yangtze (長江), the Yellow (黃河), and the Lancang (瀾滄江) rivers. Environmental protection work in Qinghai therefore not only has an impact on sustainable development in the province but will also affect Gansu, Inner Mongolia, and the entire Yangtze and Yellow river basins. Qinghai officials understand that the environmental issue will attract much domestic and international attention, and should be linked to resource allocation from the central government. In view of the inadequate resources allocated for environmental protection work, the province's ecology has been deteriorating.

Soil erosion and desertification are the most acute problems. Land area affected by soil erosion has reached about 334,000 square kilometers, with an annual expansion rate of 2,100 square kilometers. Land which has been reduced to desert form has reached 12.52 million hectares, which is about 17.4 percent of the province's land area and 23.63 percent of China's total desert area. Deserts in Qinghai are spreading at the rate of 130,000 hectares per annum. Grasslands in the province amount to 36.45 million

hectares, but over 10 million hectares of grassland have been suffering from degradation and desertification. Compared with the 1980s, per unit area of grassland now produces 4 to 10 percent less grass; in some areas, the decline has reached 50 to 90 percent. The average weight for cattle and sheep has also dropped 26 percent and 24.3 percent respectively since the 1980s. Ecological deterioration is most vividly reflected in the decline of water resources. The average water flow of the Yellow River in Qinghai in the 1990s has decreased by 23.2 percent compared with that in the early 1970s; about one quarter of the small lakes in the province have already dried up. In the farming areas in eastern Qinghai, the previous pattern of one drought in three years or two droughts in five years has gradually deteriorated to the present state of eight droughts in ten years. In the past two decades, the frequency of spring droughts in eastern Qinghai has been over 55 percent, and the average areas affected per annum in the province exceed 130,000 hectares.[33]

At the end of 1997, the Qinghai provincial Party committee and the provincial government began to draft the "Qinghai Provincial Ecological and Environmental Construction Plan," which was completed in early 1999. The authorities plan to spend half a century to ensure that soil erosion problems are resolved, the grasslands fully recover, afforestation is completed (where appropriate), and the ecology in most areas significantly improves. The goal is to increase afforestation to 13.86 million hectares, with 8.32 million hectares to be newly added in the coming five decades, so that the forest coverage rate will reach 14.1 percent. Planted grasslands will amount to 33.62 million hectares, desertification areas reduced by 8.77 million hectares, soil erosion areas replenished by 5.14 million hectares, nature conservation areas increased by 8.58 million hectares, and ecological agriculture areas expanded by 0.73 million hectares.[34] It is hoped that funding for environmental protection will reach one percent of provincial

[33]Zhang Shengjie and An Shiyuan, chap. 8: "Shengtai huanjing baohu yu zhili" (Ecological and environmental protection and management) of the section on the economy, in Hu, *Zhongguo xibu gailan: Qinghai*, 133-35.

[34]Ibid., 136.

GDP, and that environmental protection will become an important agenda item of the leadership at all levels of local government—so much so that cadres who fail in environmental protection work will not pass their performance assessment.

The results have so far been mixed. Afforestation has been given top priority by the provincial authorities, and the results have been relatively satisfactory. Afforestation in Qinghai has assumed national significance because it is part of the grand strategy launched in 1978 to overcome desertification in northern China; this regrowth policy is also an important part of the projects to preserve the water resources and prevent flooding of the Yangtze and Yellow rivers. Even here the difficulties remain substantial, however. In the first place, the economic benefits of afforestation are limited, and therefore this program must depend on government subsidies. This is especially so in Qinghai because trees require a much longer time to grow in the province's cold climate. In recent years, government inputs have amounted to 54 percent of total investment, with the remainder coming from local labor. Since most afforestation takes place in poor areas, local governments involved normally have budget problems and pay laborers low wages. Hence motivation and morale are low among the local workers. Finally, all levels of government tend to neglect the maintenance of various afforestation programs as maintenance expenditure makes up only 4.8 percent of total investment, resulting in a low survival rate of 30 percent for individual afforestation programs.[35]

As most of the industrial plants in Qinghai are obsolete, they have become important sources of industrial pollution. The provincial authorities have thus set very ambitious targets for the combat of environmental pollution. By 2005, the plan is that waste water released will not exceed 129.83 million tons, including 60.15 million tons of industrial waste water. It is expected that up to 85 percent of the industrial waste water and 50 percent of the urban waste water will be treated. The goal is for 90 percent

[35]Dong Dehong, chap. 3: "Linye" (Forestry) of the section on the economy, in Hu, *Zhongguo xibu gailan: Qinghai*, 67-68.

of industrial waste vapors to be treated by 2005. In terms of solid wastes, the plan is that by 2005, production will be limited to 4.78 million tons, with industrial wastes amounting to 4.2 million tons and urban waste 0.58 million tons. The reuse rate of industrial solid wastes is expected to reach 25 percent, while 80 percent of urban waste will be treated.[36]

Conclusion: The Way Forward

There is considerable optimism among Qinghai people concerning future economic development as they expect additional funding from the central government as part of the grand strategy to develop western China. Following the general pattern of economic development, the relative weights of primary, secondary, and tertiary industries in the province have already evolved from 23:40:37 in 1995 to 15:43:42 in 2000.[37] Despite this improvement, however, severe contradictions in the economic structure remain.

Concerning employment, in 2000, 55.82 percent of the labor force of 2.565 million people were still engaged in primary industries, 12.61 percent were engaged in secondary industries, and 31.57 percent in tertiary industries.[38] Obviously there is room for manufacturing industries and construction to absorb more surplus labor from the rural and pastoral areas. Heavy industries have been developing considerably faster than light industries, however, as reflected by the ratio of output value of agriculture, light industries, and heavy industries. This ratio was 35:25:40 in 1985, changing to 20:16:64 in 2000.[39] In 1999, the ratio of contributions to GDP between light and heavy industries was 11:89, and that between basic industries and processing industries was 87:13.[40] Since economic develop-

[36]Wen, *Qinghai "shiwu" jingji shehui fazhan yanjiu*, 394-95.
[37]*Qinghai tongji nianjian 2001*, 1.
[38]Ibid., 52.
[39]Ibid., 9.
[40]Wen, *Qinghai "shiwu" jingji shehui fazhan yanjiu*, 83.

ment and industrial expansion in Qinghai have been heavily dependent on project funding from the central government, heavy industries have been given priority. In terms of the generation of employment opportunities, however, the contribution by heavy industries has been much more limited. The slow growth of light industries reflects a general lack of entrepreneurship in the province, and the shortage of employment opportunities in the urban areas has reduced the attraction of education as a channel of upward social mobility.

The predominance of the state sector partly explains the lack of entrepreneurship. In 2000, there were 5,458 private enterprises in Qinghai employing 95,270 workers; in addition, there were 58,774 individual household enterprises involving 105,106 people. These individual household enterprises had a total asset value of 501.49 million *yuan*, and enjoyed total sales or business revenues amounting to 4.488 billion *yuan* in 2000.[41] In terms of fixed-asset investment in 2000, 66.41 percent came from the state sector, 4.27 percent from the collective sector, and 8.45 percent from the private sector, with the rest belonging to the category of "other."[42] It is significant that the provincial authorities plan to encourage TVEs to raise rural incomes, yet have no major plans to promote the private sector which is usually considered to have the greatest potential for economic growth at this stage. TVEs lack funding for development, and the provincial banking system has been slow in responding to their needs. In fact, there is an acute shortage of banking expertise in support of the development of small and medium-sized private enterprises.

The reform of SOEs does not seem to inspire much confidence. The emphasis during this stage of development is to secure funding from the central government for major projects; this often means that the restructuring and renovation of existing SOEs are neglected. Issues of efficiency and profitability tend to be accorded lower priority as the major objective is to maximize investment funding from the central government. These

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[41] *Qinghai tongji nianjian 2001*, 25.
[42] Ibid., 9.

problems have been exacerbated, moreover, by the short supply of senior managers and technical personnel.

More encouraging has been the development of the road and railway networks in recent years. Hopefully these improvements will facilitate the flow of goods and services between the urban centers and rural communities, which in turn will encourage the development of commerce and service industries. In contrast to Tibet, somehow Qinghai has not attracted immigrants from neighboring provinces, such as Sichuan. Given the local business culture, an influx of immigrants with entrepreneurial skills may perhaps be the most effective way of promoting service industries.

As indicated earlier, the provincial authorities must make greater efforts to attract investment from the coastal provinces. The inflow of investment will help to retain talented individuals, increase urban employment, and make individual investment in education more attractive. Another important area demanding contribution from the provincial leadership is the establishment of cooperative relationships with the leading universities and research institutes in China, enlisting their services both to improve the technological level of Qinghai's enterprises and to develop new products. As in many cases in China, local leadership has a substantial impact on economic development at the provincial level.

Perhaps the popular enthusiasm that has been generated by the grand strategy to develop western China is the most important asset in Qinghai's economic development in the near future. This strategy not only has led to many important infrastructural projects being supported by central government funding, but has also resulted in a boost in the morale of both cadres and ordinary people given that the province has finally attracted national attention and support.

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BOOK REVIEW ROUNDTABLE

The Tragedy of Great Power Politics

By John J. Mearsheimer

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