

# A Model of Decentralized Development: Border Trade and Economic Development in Yunnan

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*The rapid development of border trade in the late 1980s and early 1990s has provided Yunnan with an unprecedented opportunity to pursue a model of decentralized development which emphasizes utilizing its local advantages. This new model of development has produced transformative effects on Yunnan's economy. First, it has structurally changed the province's pattern of economic growth. For the first time in modern history, its traditionally poverty-stricken border counties have become the focal point of international economic contacts. Second, the model of decentralized development has vastly enhanced its quality of growth. Consumerism is set at the center of economic activities, the living standards of border residents have been raised, and living conditions have been improved.*

**Keywords:** border trade; decentralized development; Yunnan; economic development of Yunnan; economic reform of China

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If the course of economic development can be read from human geography, Yunnan should serve as one of the best fields for study. . . . In this laboratory we may glimpse the processes of change which are taking place throughout the entire East. The traditional background, long neglected by students, still lives more or less untouched beside the more recently introduced customs of modern civilization. It is here that we will see in flesh and blood how the process of modernization is working out.<sup>1</sup>

Modern civilization has repeatedly attempted to touch Yunnan, the land of traditions. Every time, Yunnan was left with the indelible

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<sup>1</sup>Hsiao-Tung Fei and Chih-I Chang, *Earthbound China: A Study of Rural Economy in Yunnan* (Chicago: University of Chicago Press, 1945), 9-10.

marks of these endeavors. However, none of them had fundamentally changed the nature of its peripheral economy. It was not until the development of border trade in the late 1980s and early 1990s that massive economic development penetrated the "long neglected" peripheral border region, presenting a new model of development for Yunnan.

The focus of this paper will be on examining the formation of the new model of decentralized development and the economic impact it has had on Yunnan. The author will begin with a review of the historical legacies of centralized development in Yunnan, because it is believed that the best way to evaluate the impact of border trade, especially in an attempt to characterize this new phenomenon, is to look at the issue historically. The author will then explore the structure of economic growth that border trade has brought to Yunnan and the quality of this growth.

### Historical Legacies of Centralized Development

Yunnan, a remote province in China, was widely considered to be economically underdeveloped. Despite its rich natural resources, it remained at the fringe of the national economy after the founding of the People's Republic of China (PRC).

Yunnan's gross social product<sup>2</sup> (GSP) constituted only about 2 percent of the national total from 1952 to 1986,<sup>3</sup> with the highest proportion of 2.23 percent in 1962. Despite the fact that it enjoyed constant growth in the absolute amount of GSP in this period, its share in the national economy was dwindling, especially in the early 1980s. Yunnan's economic ranking stagnated between 20-22 among the nation's twenty-nine provinces<sup>4</sup> from 1950 to 1986. It was thus one of the poorest provinces in China, contributing little to the national

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<sup>2</sup>Gross social product (*shehui zongchanzhi*) is also translated as "total output value of society." It is defined as the sum of (1) the value of intermediate goods and (2) the values of final products in the following five "material production sectors": agriculture, industry, construction, transport, and commerce. It is one of the most important statistics that China uses in reporting on its economy.

<sup>3</sup>Calculated from *Zhongguo tongji nianjian 1991* (Statistical yearbook of China 1991) (Beijing: Zhongguo tongji chubanshe, 1992), 47-49. *Yunnan tongji nianjian 1994* (Statistical yearbook of Yunnan 1994) (Beijing: Zhongguo tongji chubanshe, 1995), 29-31.

<sup>4</sup>Hainan Province is not included, since Hainan was part of Guangdong Province until 1988.

economy despite its status as the eighth largest province in the nation. The reasons for this poor economic condition were complicated, and many of them were due to its historical legacies. Nevertheless, changing this situation became urgent and imperative.

Structurally, agricultural production constituted a significant proportion of Yunnan's economy. There had been no fundamental changes in the nature of this structure, despite some organized efforts to improve it. In 1952, agriculture accounted for 57.04 percent of Yunnan's GSP, industry only 22.64 percent, and the rest 20.32 percent. The situation had improved only slightly twenty-five years later; in 1976, the proportion of agriculture in its GSP had decreased to 38.27 percent, whereas that of industry had increased to 36.78 percent. However, the proportion of agriculture in GSP in Yunnan was still much higher than the national average. In 1952, nationwide agriculture was 45.42 percent of the national GSP and industry was 34.38 percent; in 1976, agriculture was 23.15 percent and industry was 60.33 percent.<sup>5</sup>

However, Yunnan was not totally ignored in terms of national economic development. There were two periods in which Yunnan assumed a critical role in supporting national economic development, but none of them endowed Yunnan with the capacity for sustainable development.

The first period came during World War II, when Yunnan, as a major component of the "great southwestern rear base," experienced rapid and massive economic construction. Many new industrial enterprises were established and a large number of factories were moved to Yunnan from the coastal areas. All major banks, including the Central Bank of China, opened branches and started to invest in Yunnan. Some of the major factories that Yunnan has today, such as the Central Machinery Factory, the Central Electric Equipment Factory, and other munitions factories, were established during this time. According to a Nationalist government report in 1937, Yunnan had only 42 factories which employed about 6,000 workers. In 1942, the number of factories increased to 106, while the number of employed workers rose to 18,000.<sup>6</sup> The majority of these investments

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<sup>5</sup>*Zhongguo tongji nianjian 1993* (Statistical yearbook of China 1993) (Beijing: Zhongguo tongji chubanshe, 1994), 53.

<sup>6</sup>*Dangdai Zhongguo de Yunnan* (Yunnan in contemporary China), vol. 1 (Beijing: Dangdai Zhongguo chubanshe, 1991), 41.

were centered around Kunming. Thus Kunming and areas around Kunming became one of China's wartime industrial centers.

Industrial construction in Yunnan was suspended with the end of the Anti-Japanese War and the outbreak of the civil war in China between the Communists and the Nationalists. Many of the previous efforts were abandoned and Yunnan returned to its remote and isolated state once again.

In the 1960s, Third Front construction constituted another effort to industrialize Yunnan. Third Front construction, which took place between 1964 and 1971, was a national program, aimed at creating a self-sufficient industrial base in China's interior areas as a strategic reserve in case China were to be at war with other countries.<sup>7</sup> This program covered the vast interior areas of southwest China and Yunnan was an emphasis of the program. The areas covered by the program in Yunnan included the northern and northeastern parts of the province, whereas the southern and southwestern border regions were not included.

One focus of Third Front construction in Yunnan was on building a new infrastructure to connect the potentially strategic interior with the rest of the country. The construction of major railways connecting Kunming with the adjacent provinces was given the highest priority and carried out with accelerated speed. The completion of the Guiyang-Kunming and Chengdu-Kunming railways were typical examples.

Another focus of Third Front construction was the establishment of industrial facilities in Yunnan. New manufacturing plants were built, many of them from scratch. Construction emphasized plants for machinery building, munitions production, and electronic equipment research and production. Several important research institutes engaging in military-related high-tech research were also built, making Yunnan one of the most important torpedo research and manufacturing centers in China.<sup>8</sup>

The economic impacts of these two major development programs, especially the Third Front program, were far-reaching. First,

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<sup>7</sup>For a detailed analysis of Third Front construction, see Barry Naughton, "The Third Front: Defense Industrialization in the Chinese Interior," *The China Quarterly*, no. 115 (September 1988): 351-86.

<sup>8</sup>*Dangdai Zhongguo de Yunnan* 1:541.

they provided Yunnan with the industrial basis for industrializing and modernizing its economy. These industrial facilities became the backbone enterprises that could be used to exploit and process the important ferrous and nonferrous mineral resources that Yunnan was abundant with. Second, the railway connections unlocked traditionally inaccessible Yunnan to the rest of the country.

Despite these positive economic impacts, centralized development programs often generated unrealistic, unbalanced, and sometimes twisted development. They lacked the capacity to make full use of local advantages to initiate dynamic and sustainable development. The spillover effects of the plans were very limited, since they could not accommodate local conditions. For example, during Third Front construction, the national plan was to build Yunnan into a strategic industrial center. Quite a few munitions factories and some electronic and machinery factories with sophisticated technologies were built in Yunnan. These factories did have some positive effects on Yunnan's economy, but ignored the fact that Yunnan had an underdeveloped, agricultural economy. Although many of the factories were significant by themselves, the sophisticated technologies involved could not be assimilated by Yunnan. Hence, they did not produce the optimum results they might have, had they been built in places where there was a compatible level of economic development. Since Yunnan's economic development was heavily dependent on central government investment, how and where to use this investment was dictated by Beijing according to its strategic needs. The local capacity to absorb the investment was a secondary consideration, if not totally ignored.

For example, during 1952-78, government investment in Yunnan, as shown in table 1, was heavily concentrated on industry, occupying 56.6 percent of total investment, while agriculture occupied only 10.5 percent. Out of the total industrial investment, 92.3 percent was put into heavy industry, and only 7.7 percent into light industry. This highly tilted investment resulted in unbalanced economic development: a developed heavy industry, but neglected light industry and agriculture. This investment model ignored the fact that Yunnan was an underdeveloped, agricultural province with extensive peripheries, and since most of the new facilities and investment were clustered in or around big cities, especially Kunming, where there was greater access to railway and road transportation, the government simply further alienated the economic center from the vast peripheries. In other words, they strengthened Yunnan's existing unbalanced development.

**Table 1**  
**Investment Structure in Yunnan, 1952-78**

	Unit: Million Yuan			
	Total	Industry		Agriculture
		Heavy	Light	
Amount	1,719.17	8,986.54	748.45	1,807.86
Percent		56.6%		10.5%

**Sources:** Calculated from *Yunnan tongji nianjian 1988* (Statistical yearbook of Yunnan 1988) (Beijing: Zhongguo tongji chubanshe, 1989), 328, 338.

The sole dependence on investment from the central government not only produced unbalanced development in Yunnan, but also made its economy vulnerable to the government's policy, thus making it prone to fluctuating with the changing political objectives.

As shown in figure 1, Yunnan's economic growth was obviously correlated with the investment rate. Whenever there was a drop in investment, there would be a detrimental influence on Yunnan's economy. As a matter of fact, many of the projects which required further large investments were often suspended or reduced in order to cope with the reduction in government investment.<sup>9</sup>

All in all, centralized development brought limited development to Yunnan and the cost of this development was also dear.

The development of border trade in the late 1980s and early 1990s marked the beginning of a new period of rapid economic development. For the first time in history the localized advantage factors were emphasized and utilized.

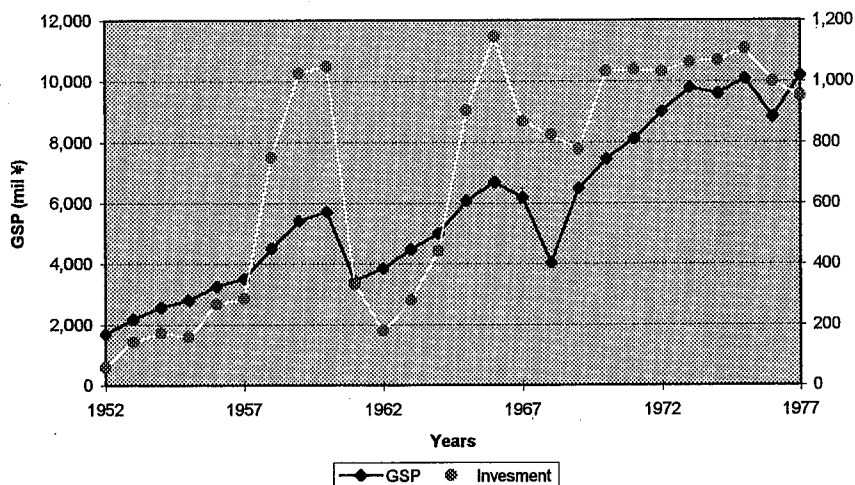
### **Border Trade and the Structure of Growth**

One of the major objectives of China's economic reform is to reduce and adjust its centrally-controlled command economy, eventually allowing the market to regulate the economy. This "re-structuring" of the economy has not been carried out in a big-bang manner. Instead, it is taking a long-term, cumulative approach, and its impact will be significant in the long run.

As part of China's economic reform, Yunnan's economic reform

<sup>9</sup>See *ibid.*, 153-54, 183-86, for detailed analysis.

**Figure 1**  
**GSP Growth and Investment in Yunnan, 1952-77**



**Sources:** *Yunnan tongji nianjian 1994* (Statistical yearbook of Yunnan 1994) (Beijing: Zhongguo tongji chubanshe, 1995), 29-30, 131.

has reflected the general characteristics of the nation. New models of economic development took shape in the 1980s and early 1990s, enabling Yunnan to become less dependent on the central government for its development projects.

As argued above, Yunnan's economic growth was closely associated with the central government investment rate. Table 2 shows an increase in the absolute amount of investment over the ten-year period between 1983 to 1993 as well as changes in the composition of investment. It is true that investment from the central government, in terms of absolute amount, has increased in this period, but this increase is overshadowed by the fact that its share in total investment decreased significantly from 20.4 percent in 1983 to only 5.5 percent in 1993. Between 1990 and 1992, even the absolute amount decreased annually, whereas the absolute amount of investment from sources other than the government increased tremendously. The proportion of domestic loans and foreign investments has expanded steadily over the years, while the ratio of self-raised funds for investment has remained almost constant. The growth of foreign investment in Yunnan has been most impressive; even though the share of foreign investment has not exceeded 3 percent of total investment, the total amount increased over forty times in the ten-year period from 1983



**Table 2**  
**Investment Composition in Yunnan, 1983-93**

Year	Government investment		Domestic loans		Foreign investment		Self-raised funds	
	Mil. yuan	%	Mil. yuan	%	Mil. yuan	%	Mil. yuan	%
1983	500.17	20.4	407.23	16.6	6.5	0.3	1,535.74	62.7
1984	649.87	19.7	577.68	17.5	26.46	0.8	2,045.1	62
	(+29.9%)		(+41.9%)		(+307.1%)		(+33.2%)	
1985	743.09	15.5	1,042.61	21.7	74.11	1.5	2,940.44	61.3
	(+14.3%)		(+80.5%)		(+180.1%)		(+43.8%)	
1986	725.3	14.1	1,121.77	21.8	149.25	2.9	3,149.39	61.2
	(-2.4%)		(+7.6%)		(+101.4%)		(+7.1%)	
1987	774.56	13.7	1,167.98	20.7	138.06	2.4	3,566.61	63.2
	(+6.8%)		(+4.1%)		(-7.5%)		(+13.2%)	
1988	829.63	12.2	1,491.84	22.0	184.84	2.7	4,481.2	66.1
	(+7.1%)		(+27.7%)		(+33.9%)		(+25.6%)	
1989	840.24	12.4	1,399.15	20.6	153.83	2.3	4,386.63	64.7
	(+1.3%)		(-6.2%)		(-16.8%)		(-2.1%)	
1990	997.09	13.2	1,573.74	20.8	138.41	1.8	4,865.22	64.2
	(+18.7%)		(+12.5%)		(-10.0%)		(+10.9%)	
1991	989.97	10.1	2,535.2	25.8	277.99	2.8	6,028.39	61.3
	(-0.7%)		(+61.1%)		(+100.8%)		(+23.9%)	
1992	961.12	6.8	4,406.91	31.3	200.14	1.4	8,500.75	60.4
	(-2.9%)		(+73.8%)		(-28.0%)		(+41.0%)	
1993	1,389.39	5.5	6,318.29	25.1	670.41	2.7	16,762	66.7
	(+44.6%)		(+43.4%)		(+235.0%)		(+97.2%)	

Sources: *Yunnan tongji nianjian* (1989), 383; *ibid.* (1994), 122.

to 1993. This is also the area which has greater potential as foreign contacts with Yunnan expand.

The changing pattern of investment in Yunnan suggests that it is exploring multiple channels, especially commercial channels, to attract investment. The market is thus playing an increasingly important role in Yunnan's economy.

The emphasis of economic activities is also shifting from heavy industry to some profit-earning industries, most of which are light industries, such as foodstuffs and soft drinks production, tropical crops processing, mineral resources processing, and the tourist industry.<sup>10</sup> The tobacco industry has been the most outstanding; according to Li Mingde, chairman of the Economic Committee of Yunnan Province,

<sup>10</sup>Ingrid d'Hooghe, "Regional Economic Integration in Yunnan," in *China Deconstructs: Politics, Trade and Regionalism*, ed. David S. G. Goodman and Gerald Segal (London: Routledge, 1994), 290-92.



the tobacco industry has become the pillar in the provincial economy since 1980, contributing half of the total industrial profit.<sup>11</sup> These industries have been the profit-earners as well as major recipients of investment and reinvestment.

However, market-oriented reform in Yunnan did not change the unbalanced distribution of economic development. In other words, Kunming still occupied a central position in Yunnan's economy. The situation did not change until the rapid development of border trade in the mid-1980s; it not only brought a new round of economic growth in Yunnan, especially in border counties, but also produced significant structural changes in Yunnan's economic growth. For the first time in history, the traditional peripheries have been incorporated into the center of economic activities with their local advantages fully utilized.

As shown in table 3, there are significant economic differences among the major cities, the inland counties, and the border counties. The scale of the economy in the major cities is much larger than that of the inland and border counties. Kunming alone constitutes more than 15 percent of the province's total GSP. On average, the GSP of the major cities is twenty times larger than that of the inland counties and fifty times of the border counties. In terms of GSP per capita, the major cities are also much better off than the inland and border counties. However, in terms of accumulative growth between 1985 and 1992, the border counties had the most impressive growth. Their GSP increased 85.06 percent in that period, much higher than the 68.55 percent and 57.59 percent increases of the major cities and inland counties, respectively. Their GSP per capita increased by 63.68 percent, also higher than the 58.38 percent of the major cities, and much higher than the 41.87 percent of the inland counties.

Another phenomenon has been the widening gap between the border counties and the inland counties. In 1985, the GSP per capita of the border counties was only 5 percent more than that of the inland counties. In 1992, however, the difference had expanded to 24 percent, giving the border counties an obvious advantage.

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<sup>11</sup>Li Mingde, "Summing Up the Past, Looking Forward to the Future," in *Yunnan jingji sishinian* (Yunnan's economy in the past forty years) (Kunming: Yunnan nianjian chubanshe, 1990), 3.

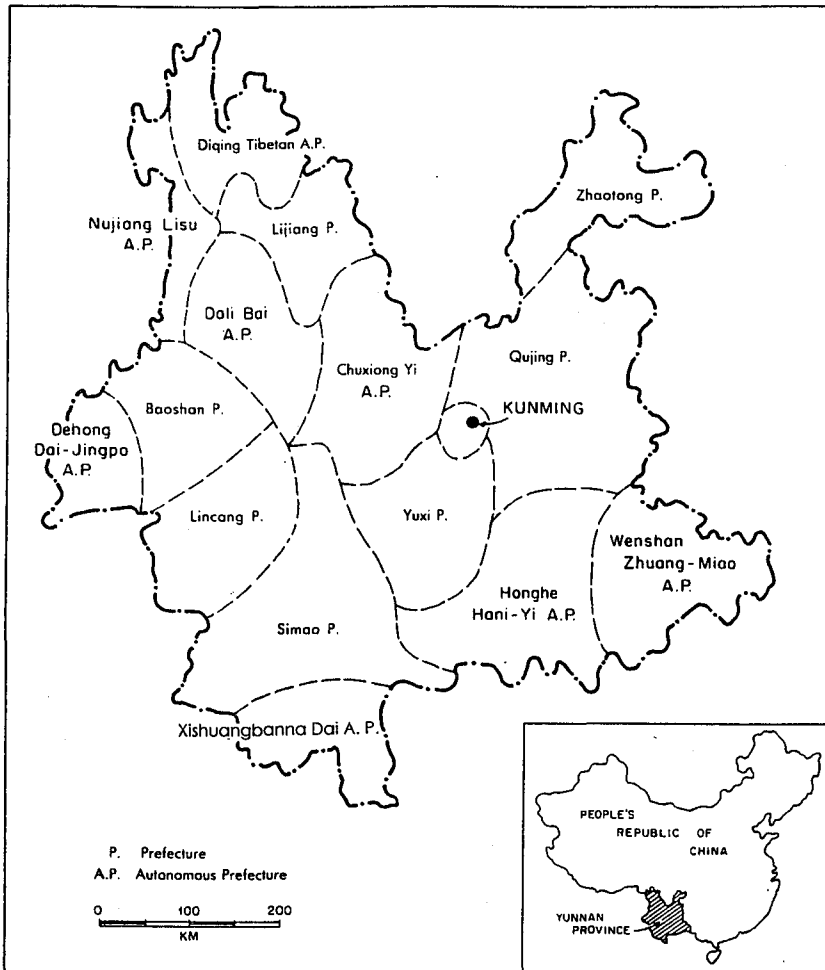
## Map of Counties in Yunnan



**Note:** Boundaries in the map are not necessarily authoritative

Still, situations varied among the border counties. Some of them had a faster rate of growth in border trade as well as in their overall economies, while others lagged. For example, economic growth was much more significant in Ruili, Dehong Prefecture than in Maguan, Wenshan Prefecture, since the latter was a war zone between China and Vietnam whose border region had been turned into a mine field. Even after the rapprochement between China and Vietnam, these mines could not be cleared in a short period of time. This has become one of the major restrictive elements in Maguan County's border trade,

## Map of Prefectures in Yunnan



**Note:** Boundaries in the map are not necessarily authoritative.

as well as many other counties along the Yunnan-Vietnam border. Nujiang Prefecture has also lagged behind, mainly due to its rugged river valley terrain, which has prevented its border counties from developing vigorous border trade. As a result, its economy has grown at a slower pace than Dehong Prefecture, which enjoys better terrain and had a better infrastructure. These facts show that being a border county does not guarantee economic growth. Instead, it depends on the specific location of the border counties and whether, or how, the geographic advantages can be utilized.

**Table 3**  
**Comparison of Cities and Border and Inland Counties, Yunnan**

	GSP (Million <i>yuan</i> )			GSP per capita		
	1985	1992	Growth (%)	1985	1992	Growth (%)
Province	28,926.0	51,398.9	77.69	846.3	1,341.4	58.51
Major cities						
(Average)	4,445.1	8,007.0	68.55	1,714.1	2,777.3	58.38
Kunming	8,665.6	15,663.0	80.75	2,611.7	4,318.4	65.35
Dongchuan	224.5	351.1	56.36	816.5	1,236.2	51.40
Border counties						
(Average)	85.1	150.8	85.06	720.9	1,246.1	63.68
Cangyuan	58.0	128.7	121.72	436.3	857.8	96.59
Hekou	57.6	104.2	80.87	847.5	1,408.6	66.21
Longchuan	119.9	196.8	64.21	908.0	1,320.9	45.48
Maguan	129.7	143.3	10.51	416.9	427.7	2.59
Ruli	93.1	240.9	158.61	1,311.8	2,833.8	116.02
Zhenkang	52.2	91.0	74.42	404.7	627.9	55.17
Inland counties						
(Average)	215.5	356.3	57.59	688.8	958.0	41.87
Baoshan	457.9	696.3	52.05	665.6	922.3	38.56
Daguan	98.8	94.1	-4.75	491.3	407.2	-17.12
Eshan	122.8	242.7	97.61	967.2	1,771.8	83.18
Heqing	130.0	171.7	32.11	565.1	686.8	21.54
Jianchuan	147.1	297.9	102.47	710.8	1,295.2	82.22
Lanping	74.7	166.6	122.96	479.1	946.8	97.62
Lufeng	344.7	507.5	47.25	939.2	1,308.1	39.28
Mengzi	244.1	410.1	68.01	953.4	1,433.7	50.38
Nanhua	321.7	158.7	-50.67	1,592.3	727.8	-54.29
Qiaojia	121.9	151.1	23.96	282.9	302.2	13.20
Shizong	146.5	257.6	75.77	544.7	836.2	53.52
Suijiang	58.8	119.5	103.09	478.4	859.7	79.71
Wenshan	204.7	274.9	34.33	625.9	731.2	16.83
Xuanwei	647.0	1,166.1	80.25	591.9	964.6	62.96
Yaoan	109.4	150.7	37.78	610.9	793.0	29.80
Yongren	65.9	80.6	22.33	701.0	814.2	16.15
Yuanyang	98.2	109.7	11.79	313.6	322.7	2.91
Zhaotong	484.6	1,358.1	180.24	886.0	2,102.4	137.29

GSP: Gross social product.

Source: *Yunnan tongji nianjian* 1993, 601-4.

In any case, border trade has offered a viable alternative for Yunnan's economic development. A protracted problem that has haunted Yunnan and its locals for a long period of time is how to help lift its peripheral counties out of poverty and backwardness. Among the total of forty-one so-called "counties in poverty,"<sup>12</sup>

<sup>12</sup>*Yunnan tongji nianjian* 1989 (Statistical yearbook of Yunnan 1989) classifies 41 of the 127 counties in Yunnan as the "counties in poverty."

**Table 4**  
**Border Trade and Economic Growth in Selected Counties, Yunnan**

County	Trade value (million <i>yuan</i> )			GDP growth	GSP annual average growth rate (%) 1986-92
	1992	1993	Growth (%)	1993* (%)	
Ruili	776	928.18	19.6	10.4	15.2
Wanding	279	196.75	-29.5	69.3	11.1
Longchuan	239	301.61	26.2	-2.6	7.5
Yingjiang	151	192.28	27.3	12.5	8.3
Hekou	141	142.58	1.1	1.9	8.6
Tengchong	124	245.24	97.8	6.9	9.0
Luxi	—	209.87	—	21.9	8.8
Menghai	—	126.57	—	-0.1	7.9
Gengma	—	103.72	—	9.9	13.0

**Notes:**

GDP = gross domestic product.

\*GSP data for 1992 is not available; so the GDP growth rate is adopted for 1993 instead.

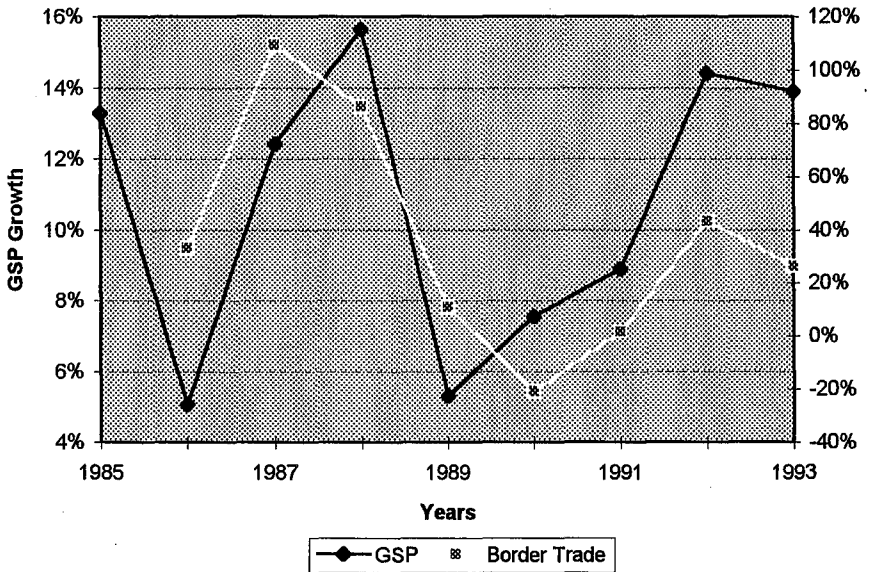
**Sources:** *Yunnan jingji nianjian 1993* (Yearbook of Yunnan's economy 1993) (Kunming: Yunnan nianjian zazhishe, 1994), 237; *ibid.* (1994), 274; *Yunnan tongji nianjian* (1993), 601-4; *ibid.* (1994), 557-60.

thirteen are border counties. In other words, half of the border counties are poor and backward counties. Border trade provides the border counties an opportunity for a prosperous future.

The top nine border counties whose total amount of border trade exceeded 100 million *yuan* in 1992 and 1993 are listed in table 4. Overall, they constituted more than 80 percent of the province's total border trade. As indicated in the table, all of these counties have experienced significant growth in terms of the gross domestic product (GDP), and most of their average GSP growth between 1986 and 1992 was also impressively higher than the provincial average of 8.32 percent. Dehong Prefecture, whose border trade accounted for 70-80 percent of the province's total amount, offers the best example. In Wanding and Ruili, the two most important port cities, sluggish border trade in 1989-90 resulted in a big downturn of GSP growth. In Wanding, the GSP decreased in 1989 and 1990.

It is difficult to arbitrarily assert that only border trade can bring such growth to the border counties, since we cannot statistically control all other factors. Nevertheless, data in both table 4 and figure 2 strongly support the argument that the economic growth of the border counties is conspicuously related to the rapid development

Figure 2  
GSP Growth and Border Trade in Yunnan, 1985-93



Sources: *Yunnan tongji nianjian* (1991), 474; *ibid.* (1994), 29-30, 492.

of border trade. In other words, GSP growth in the border counties is a function of border trade, fluctuating with the growth and decrease of border trade. The national retrenchment policy of 1989-90 might also have played a role in slowing economic growth, since GSP in the major cities and inland counties also experienced a decline of growth in 1989-90. However, the border counties had the deepest decline. This implies that, in addition to the national retrenchment policy, border trade triggers fluctuations in economic performance within the border counties.

Statistical tests offer a better estimate and a good demonstration of the importance of border trade to the border counties (see table 5).

Results of the statistical tests further verify the argument made above. They show first that the border counties, with a standard deviation of 8.9, have the most dynamic economic activity. Second, to a certain extent, the border counties have the least stable economies, experiencing the greatest changes in comparison with the economies of the major cities and inland counties. However, with the positively skewed value of 1.415, we know that the distribution is skewed toward the larger value of GSP growth rate. The positive Kurtosis value of 1.827 also indicates that it is a heavily tailed distribution clustered

**Table 5**  
**Statistical Tests of the GSP Growth Rate, Yunnan**

	Standard Deviation	Skewness	Kurtosis
Major cities	5.9	.343	-.657
Border counties	8.9	1.415	1.827
Inland counties	4.3	.733	-.925

at the positive end of the spectrum. In other words, there have been a large number of extraordinarily high GSP growth rates. In comparison, the inland counties have the most steady economic performance.

No attempt is made here to statistically evaluate the exact impact of border trade on the economic performance of the border counties. This is because, as mentioned above, without holding all other factors constant, it is impossible, from the statistical point of view, to accurately evaluate the exact economic impact of border trade. However, the GSP growth rate in border counties is an important indicator of this impact. Even though it does not show the exact scale of the impact, it does illustrate the direction of the development.

As discussed above, border trade has contributed to the economic growth of the border counties. Most importantly, border trade has structurally turned Yunnan's centralized development model into a decentralized model by incorporating the traditional peripheral region into the center of economic development.

Kunming had long been the center of economic activities in Yunnan, as all investment, production, and sales were concentrated there. Commercial trade was exclusively confined to several designated state corporations or state institutions. Hence, Kunming served as the sole engine of economic development. With Yunnan opening up to the outside world and the rapid development of border trade, especially in the early 1990s, this strategic emphasis of economic development has started to change.

This change has been represented, first, by an emphasis on building an export-oriented economy in Yunnan. As He Zhiqiang, the governor of Yunnan Province, said in his speech on building an export-oriented economy, "The principle of developing an export-oriented economy in Yunnan is to ensure that the growth rate of the export-oriented economy will be placed in a position higher than that



of the national economy.”<sup>13</sup> In this export-oriented economy, border trade will play a pivotal role through which “tens of thousands of enterprises which do both import and export business with foreign countries in the areas along the borderline” will be established,<sup>14</sup> thus giving the economy the greatest possible impetus.

The structural change has also been illustrated by the juxtaposition of the traditional peripheral counties with Kunming in Yunnan’s export-oriented economy. Kunming still plays a vital role in economic activities, especially in the development of high-tech and/or new technology industries. Just as He Zhiqiang said when he outlined Yunnan’s focus, “the center of Yunnan’s opening up to the outside world is Kunming.”<sup>15</sup> However, while Kunming serves as the center, the open border cities are widely considered as the “front-line” of international openness, targeting the Southeast and South Asian markets for Yunnan’s exports.

This structural change in the strategy of the economic development in Yunnan provides great potential for future development. It will be extraordinarily significant for alleviating, and finally eliminating poverty in the traditional peripheries of Yunnan, as will be discussed later.

### Border Trade and the Quality of Growth

One of the major innovations in Chinese economic reform during the 1980s was the recognition of the role of the market in economic activities and the function of material incentives in achieving greater economic efficiency and productivity. As a result, government control of economic affairs has been loosened.

As explained above, Yunnan had experienced economic development in the 1960s and early 1970s due to the implementation of Third Front construction. However, accompanying economic growth was achieved through extensive investment from the central government

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<sup>13</sup>“Yunnan Governor on Export-Oriented Economy,” Kunming Yunnan People’s Radio Network in Mandarin, March 13, 1993, in Foreign Broadcast Information Service (FBIS), *Daily Report: China* [hereafter cited as *FBIS-CHI*]-93-051 (March 18, 1993): 69.

<sup>14</sup>*Ibid.*

<sup>15</sup>“He Zhiqiang Outlines Focus of Yunnan Opening,” *Ching Chi Tao Pao* (Hong Kong), 1992, no. 16:28, in *FBIS-CHI*-92-088 (May 6, 1992): 38.

with the purpose of building Yunnan into a strategic base in China. Therefore, the achievement was more political, and/or military, than economic in nature. Yunnan became one of the major providers of natural resources for other parts of the country and economic activities centered around areas that received large amounts of government investment. The social and economic consequences of this were considered secondary to the priorities of the politically-oriented plan.

For the first time, the development of border trade has not only structurally changed Yunnan's economy, but also set "consumerism" as one of the basic objectives in economic activities. In other words, the consumers are on the center stage as far as sharing the fruits of these activities. Thus, the socioeconomic results of border trade development are immediately manifested.

### *Infrastructure Improvement*

One of the most obvious and impressive economic benefits brought about by border trade is the improvement of Yunnan's infrastructure as a whole, and in the border regions in particular.

Infrastructure is one of the bases for economic development. However, it has also been a major weakness in Yunnan's economy, as poor infrastructure has long been considered the greatest bottleneck obstructing its further economic development. Infrastructure construction has been a "money-swallower" in Yunnan;<sup>16</sup> despite achievements in infrastructure construction in the past forty years, Yunnan is still one of the most poorly connected provinces in China. In addition, past construction mainly concentrated on Kunming and its surrounding areas, whereas the vast border areas were left out.<sup>17</sup>

With the development of border trade, infrastructure construction and improvement have become the most important economic mission. Many projects for building new facilities and improving existing ones have been undertaken in Yunnan, especially in the border regions.

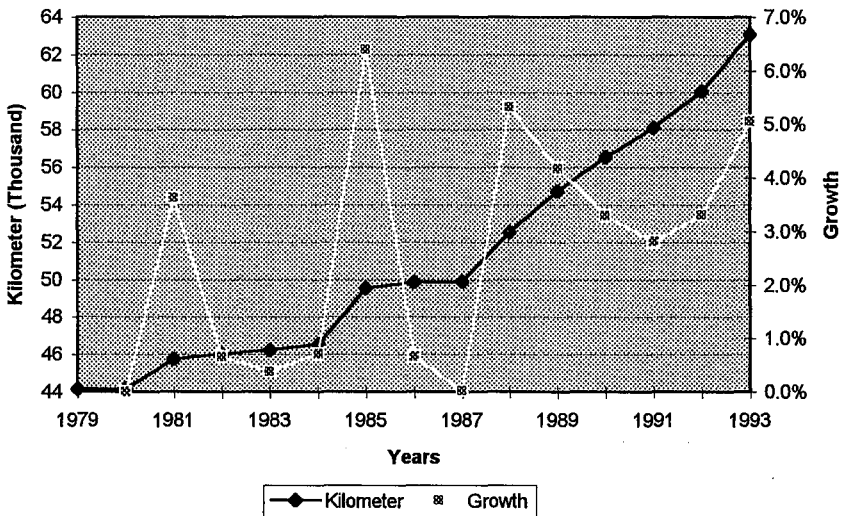
Railroad are the major means of transportation that connect Yunnan with other provinces in China. In addition to the existing railroads, which are running at full capacity, the Nanning-Kunming Railway line is under construction and will be completed by 1997.

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<sup>16</sup>d'Hooghe, "Regional Economic Integration in Yunnan," 292.

<sup>17</sup>*Yunnan jingji sishinian*, 147.

**Figure 3**  
**Road Connections in Yunnan, 1979-93**



Source: *Yunnan tongji nianjian 1994*, 79-93.

It will connect Kunming with Nanning, and further on, with Beihai, Guangxi. A more significant aspect of the railway construction is the extension of railway connections to the western and southern parts of the province, including the main Guangtong-Dali Railway line which connects the western part of Yunnan to Kunming for the first time. The Kunming-Hekou Railway, which was finished in 1911, is the main line to the south. These main lines and their associated sub-lines link different parts of the province together, including the border areas.

Road connections in Yunnan have also increased tremendously in recent years. As shown in figure 3, road construction in Yunnan has made two important leaps since the late 1970s. One took place in 1984-85. The more significant one started in 1988 and is still continuing.

Within Yunnan, road construction in the border counties has expanded more rapidly than in both the major cities and inland counties, as shown in table 6. New roads have been built and existing roads widened and upgraded. Most of the main streets in the port cities have been expanded from two-lane to four-lane streets, and the major transportation lines between counties have been paved with asphalt. A comprehensive road network connecting the border

**Table 6**  
**Road Connections in Yunnan**

	1988	1990		1992	
	Kilometer	Kilometer	Growth	Kilometer	Growth
Kunming	4,226	4,448	+ 5.3%	4,542	+ 2.1%
Border counties					
Honghe	6,039	6,393	+ 5.9%	6,708	+ 4.9%
Xishuangbanna	1,358	1,564	+ 15.2%	1,761	+ 12.6%
Dehong	1,763	1,848	+ 4.8%	1,979	+ 7.1%
Average			+ 8.6%		+ 8.2%
Inland counties					
Diqing	1,224	1,410	+ 15.2%	1,402	-0.6%
Dali	3,946	4,045	+ 2.5%	4,318	+ 6.7%
Lijiang	2,115	2,244	+ 6.1%	2,684	+ 19.6%
Average			+ 7.9%		+ 8.6%

Sources: *Yunnan tongji nian* (1989), 329; *ibid.* (1991), 294; *ibid.* (1993), 431.

counties with the outside is taking shape. This has become one of the most visible changes in the border counties.

Dehong Prefecture has accomplished the most in road construction. In the early 1990s, the prefectural government invested about 74.7 million *yuan* in building new roads and improving existing road conditions. A total of 110 km of new roads were constructed in the open port cities and 527 km of new roads connecting towns and villages were built.<sup>18</sup>

The most important project in road construction was the building of the Jiegao Bridge. The bridge, which is 456.8 meters long and the longest highway bridge in Yunnan, was completed on October 18, 1992.<sup>19</sup> It stretches across the Ruili River, connecting Ruili and Mu Se, an adjacent city in Myanmar (Burma). The construction of this bridge is the direct result of the development of border trade in Dehong Prefecture. Its completion has greatly facilitated the transportation between Ruili and Myanmar, and promoted the eco-

<sup>18</sup>*Yunnan ribao* (Yunnan Daily), May 15, 1992, 2.

<sup>19</sup>*Ibid.*, October 21, 1992, 1.

conomic interactions between both sides of the border.<sup>20</sup>

### *Benefits to the Border Residents*

The border residents are the first and most direct beneficiaries of border trade as well as its traditional and most active participants. As direct participants, they produce some of the goods and trade them, especially in free markets for border residents. Some of the residents work as traders, specializing in importing and exporting the commodities needed in border trade. As a result of these activities, the living standards and living conditions in the border regions have greatly improved. Selected measurements, such as the balances of savings deposits and retail sales, are used to show the improved living standards in the border regions.

Before examining the data, it is necessary to explain how data is collected. In tables 7 and 8, border counties are compared with the major cities and inland counties in order to show the impact of border trade on the border counties. There are several rules that the author followed to select the samples in the comparisons in order to maximize the reliability of the result. First, only selective counties were included, since it is practically difficult and statistically unnecessary to include every county in the research. Therefore, only one-fifth of the border and inland counties were selected. Second, although random selection was not adopted, the indiscriminate selection method was applied in the research. All the border and inland counties were listed alphabetically (according to *pinyin*), and every fifth county on the list was selected, making that county the representative of its category.

Savings deposit balances are important indicators reflecting people's living standards. Table 7 shows that there has been a steady and rapid increase in the growth rate of savings deposit balances in the border counties since 1986. It proves that the border residents have more and more money to spare. The fact is reinforced by the Chinese tradition whereby people prefer to keep money at home

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<sup>20</sup>It was reported that the Burmese government highly praised the construction of the bridge. One of its high officials named the bridge the "friendship bridge of Burma and China." It was also reported that Mu Se county was given city status in order to reciprocate for the exchange between the border cities. See Wang Hongpo and He Zheng, *Retu zhi huo: Dehong yanbian kaifang jishi* (The puzzles of an exciting land: A report on the opening along the border in Dehong) (Hong Kong: The Yellow River Culture Press, 1993), 208.

Table 7

The Growth Rate of Savings Deposit Balances in Yunnan, 1986-93 (%)

	1986	1987	1988	1989	1990	1991	1992	1993
Major cities	24.71	21.07	-6.99	18.76	14.35	22.22	16.49	24.14
Kunming	28.62	24.11	4.18	31.71	0.07	22.32	16.17	43.36
Dongchuan	20.81	18.03	-18.16	5.81	28.63	22.11	16.82	4.92
Border counties	30.68	32.01	-1.35	2.63	24.05	19.96	21.10	-5.56
Cangyuan	24.57	23.04	-1.47	12.51	26.58	11.33	10.26	-13.74
Hekou	28.84	15.04	-17.31	24.96	-0.71	25.30	16.31	-7.25
Longchuan	33.73	37.50	3.58	-12.02	38.84	19.46	18.30	1.52
Maguan	38.68	17.75	-10.90	0.85	19.92	13.69	15.68	-15.41
Ruili	34.72	60.06	3.34	-0.51	42.75	30.21	37.34	8.85
Zhenkang	23.57	38.65	14.66	-10.02	16.94	19.79	28.71	-7.32
Inland counties	27.40	32.43	0.47	1.67	24.99	23.89	16.35	1.40
Baoshan	32.88	32.97	-0.94	9.13	28.21	25.49	15.06	4.21
Daguan	16.82	30.19	2.05	-9.69	11.79	20.98	11.34	1.82
Eshan	21.37	29.56	-3.73	14.25	20.84	23.13	12.05	10.29
Heqing	11.82	41.49	-1.31	0.66	25.52	19.99	18.88	3.59
Jianchuan	27.71	31.89	1.69	8.38	27.79	26.40	19.56	8.52
Lanping	42.44	47.63	30.69	-8.07	27.09	49.35	16.98	0.44
Lufeng	21.68	31.55	5.56	1.41	29.30	23.36	16.67	7.99
Mengzi	27.74	17.81	-16.59	11.97	24.89	20.55	9.99	-6.27
Nanhua	20.35	41.33	4.95	-1.35	24.46	26.24	20.15	8.10
Qiaojia	28.89	22.28	-3.87	0.70	29.20	20.97	11.01	-0.75
Shizong	34.59	42.38	2.80	-6.80	22.56	22.90	23.91	-1.32
Suijiang	31.03	30.61	-10.83	-6.47	22.53	17.76	16.95	-10.09
Wenshan	58.42	25.95	-9.15	11.44	26.08	13.25	8.54	-13.92
Xuanwei	20.75	22.73	2.44	4.45	26.82	20.38	18.42	-7.99
Yaoan	19.60	45.34	11.62	1.03	20.89	22.61	21.24	5.67
Yongren	16.88	29.34	0.46	-7.15	24.00	31.79	15.35	3.13
Yuanyang	31.92	24.76	2.00	2.32	15.94	17.91	20.86	6.26
Zhaotong	28.28	35.99	-9.31	3.90	41.98	26.98	17.43	5.51

Sources: *Yunnan tongji nianjian* (1989), 578-682; *ibid.* (1991), 581-84; *ibid.* (1993), 643-46; *ibid.* (1994), 587-90.

instead of depositing it in the bank. Accordingly, savings likely exceed those shown by bank deposits. The table also shows that the growth rate is clearly associated with fluctuations in border trade. For example, in 1989, when border trade was stagnant, the average growth rate of savings deposit balances grew slowly. In other words, to the border residents, border trade has been a great money-earning opportunity.

Retail sales, which reflect the purchasing power of the residents, are another indicator of the living standards in border regions. Table 8 shows the fluctuations in retail sales in Yunnan. It is true that in some years, retail sales in the border counties have not grown as fast as in the major cities and inland counties. However, close examination of the data reveals that the deepest decrease took place in 1989-90, the years with stagnant border trade. The statistics for Ruili show an even more contrasting picture. Retail sales increased by 54 percent in 1988 before decreasing by 24 percent in 1989 and 27 percent in 1990. This situation suggests that border regions have a high degree of dependence on border trade and indicates the vulnerability and the low base of the border economy. The fact that the retail sales of the border counties were not as positive as savings deposits (compared with cities and the inland counties) shows that the effects of commercial advantages diminish in a poor place.

It would be wrong to attribute fluctuations solely to border trade, since the major cities and inland counties also experienced slow growth during the same period. It could be argued that the national retrenchment policy in 1989-90 might have played a role. However, the uncharacteristic deeper drop in the border counties reveals that, in addition to the national retrenchment policy, such drops correlated with the fluctuations of border trade. It also shows the unique position that border trade has occupied in the border counties. When border trade has flourished, retail sales have surged; whereas when border trade has been depressed, retail sales have dropped. In other words, the changes in border trade had a direct and obvious impact on the lives of the people in the border counties.

Overall, the rapid development of border trade has transformed the border regions by improving the living conditions there. They have become a comfortable place to live in with the expansion of the existing and the installation of new power plants and waterworks; the building of more restaurants, cinemas, and entertainment centers; and the improvement of the sewage system. For example, in Zhangfeng, an open port city in Longchuan County, there were few changes before 1988. Most of the residents lived in thatched cottages with no tap water or electricity. With the development of border trade, great changes have taken place in Zhangfeng. In addition to the supply of electricity and tap water in the township, Zhangfeng has reached out and actively engaged in further economic cooperation



**Table 8**  
**Growth Rate of Retail Sales in Yunnan, 1986-92 (%)**

	1986	1987	1988	1989	1990	1991	1992
Major cities	-2.36	4.37	11.78	-8.78	2.74	9.62	21.75
Kunming	5.69	6.50	14.35	-8.45	2.87	12.97	21.06
Dongchuan	-10.40	2.24	9.22	-9.11	2.61	6.28	22.45
Border counties	4.41	8.70	12.87	-10.59	-8.03	7.09	5.93
Cangyuan	11.58	1.13	21.22	7.72	-17.51	-0.93	0.34
Hekou	27.00	3.24	-9.43	6.98	16.78	1.82	-4.47
Longchuan	-18.77	8.61	-2.26	-22.47	-3.25	8.91	8.16
Maguan	3.41	11.54	5.12	-18.50	-7.54	4.42	4.32
Ruili	-5.54	14.99	54.67	-24.57	-27.85	20.58	9.68
Zhenkang	8.80	12.70	7.91	-12.74	-8.78	7.73	17.53
Inland counties	-2.46	9.07	6.50	-9.25	0.60	7.87	14.57
Baoshan	-5.70	5.79	3.31	-2.80	-1.50	5.85	17.84
Daguan	-17.02	-7.24	3.57	6.02	2.92	14.55	17.00
Eshan	5.82	8.73	25.68	-8.15	1.73	2.99	8.46
Heqing	1.95	24.93	-13.34	-3.46	-8.80	5.29	2.20
Jianchuan	9.07	2.23	13.24	-6.38	1.18	4.25	25.08
Lanping	-9.54	17.38	3.90	-7.28	9.43	5.00	31.56
Lufeng	7.42	9.01	9.60	-15.47	-0.30	10.09	8.17
Mengzi	-13.63	7.62	-0.92	-16.31	-0.82	22.18	10.55
Nanhua	-4.22	1.57	14.98	-9.32	-4.91	15.97	13.67
Qiaojia	-9.27	12.36	1.58	-6.49	-3.36	19.25	5.44
Shizong	4.41	8.53	11.31	-13.92	16.00	5.67	18.02
Suijiang	-4.57	16.55	2.45	-14.58	7.56	2.66	0.46
Wenshan	10.70	3.35	7.67	-23.10	4.31	0.28	19.46
Xuanwei	9.62	3.79	4.43	-8.80	1.09	6.80	15.95
Yaoan	-19.03	15.61	21.37	-5.83	-2.88	2.37	10.74
Yongren	-0.09	4.25	-4.89	-20.28	-3.17	14.59	41.35
Yuanjiang	0.27	18.15	2.23	-7.71	-0.04	-0.14	-0.48
Zhaotong	-10.39	10.70	10.79	-2.57	-7.58	3.98	16.63

Sources: *Yunnan tongji nianjian* (1989), 494-99; *ibid.* (1990), 493-97; *ibid.* (1993), 695-98.

with Bhamo, a bordering city in Myanmar.<sup>21</sup>

<sup>21</sup>In October 1991, under the invitation of the Bhamo regional government, a border trade delegation from Longchuan County visited Bhamo. During the visit, several agreements were signed, including the agreement to reopen the Lweje (known in Yunnan as the "Westerner Street")-Bhamo Road. See *Yunnan ribao*, May 28, 1992, 2. Also Wang and He, *Retu zhi huo*, 236-42.

## Conclusion

Economic development, as shown above, is not a new phenomenon in Yunnan. But the scale and profundity of the recent development of border trade is unprecedented. As noted earlier, the development of border trade has set a new model of economic development in Yunnan by which the localized advantages in economic development are fully utilized. This new model of decentralized development has brought magnificent growth to Yunnan's economy. The ramifications of this rapid economic growth are far-reaching. First, decentralized development has changed the structure of Yunnan's growth. For the first time in modern history, the border areas have their own development avenues in which they can use their advantages. They have paved the way to the elimination of poverty which has haunted them for decades. Second, consumerism is set at the center of growth in the decentralized model of economic development, directly benefitting border residents.

However, it should be realized that this new model of decentralized development will not automatically lead to an unlimited growth of centrifugal force nor will it lead to disintegration. They may not even be desired results. Despite the changes, Yunnan's economic prosperity primarily depends on the healthy development of the national economy as well as that of China's internal market. It is clearly shown in the development of border trade. For example, in Dehong Prefecture, only 5 percent of its exports come from Dehong itself, 35 percent come from Yunnan, and the rest from other provinces. Almost all of its imports are transferred to other provinces.<sup>22</sup> In addition, despite the success in the development of border trade, Yunnan, being one of the least developed provinces in China, still relies on financial support from Beijing, especially for the large infrastructure construction projects.

Therefore, the challenge of contemporary Chinese politics that the post-Deng Chinese leadership will face is how to cope with the social, economic, and political transformation due to rapid economic development. In other words, China's economic and political development will depend on how to accommodate the rapid socioeconomic changes and deal with success and the side effects of that success.

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<sup>22</sup>*Yunnan ribao*, August 22, 1992, 2.