

# ***“Wang Qian Kan”***

How Market-led Reform Perpetuates Coastal-inland Inequalities in China

Political Science xxx/Sociology xxx

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Figure 5.1 Mainland China's three regions

Source: Modified from Wu (1996a, p. 82).

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Source: Wu, Yanrui. *China's Economic Growth* 2004, p. 54.

Chinese society, as it has undergone radical changes in the 20<sup>th</sup> century, continues to face the successes and problems of its political, ideological, economic, and social transformations. The redistributive policies in the Maoist era resulted in strong egalitarianism, though the level of income was extreme poverty. However, after Mao's death, the nation realized that the surrounding Asian countries had developed a place in the world economy. In attempt to efficiently play catch-up, China began to implement reforms in the late 1970s under the leadership of Deng Xiaoping. This increased China's economic output with a GDP increase of 9% a year, but also deepened the inequalities in multiple dimensions. (Bao 2002) The coastal-inland dimension in particular has been rapidly becoming more unequal since the Reform Era.<sup>1</sup> (Kanbur et al. 1999) Regional disparities are evident between the coastal, central, and western provinces when considering annual GDP growth and the United Nations Human Development Index. In comparison, both the GDP and HDI values increase dramatically from the western regions to the coastal.<sup>2</sup> (United Nations HDI Report, 2005) Western and Central provinces such as Yunnan, Guizhou, Tibet, and Qinghai repeatedly rank as having the lowest indices on such characteristics as GDP, illiteracy rates, and life expectancy rates.<sup>3</sup> This paper will explore the policies that launched the regions into the trajectory of

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<sup>1</sup> The Gini coefficient, which is used to calculate income inequalities, shows that coastal-inland income levels are comparable (Wu 2004). Rather, it is the income of the metropolises (Shanghai, Tianjin, and Beijing) that amplify income disparities. This paper will consider other indicators of human development besides income level.

<sup>2</sup> See Appendix for China's HDI by region.

<sup>3</sup> China ranks in the middle range for HDI as 82<sup>nd</sup> in the world. (UN 2005) The western and central provinces noted in the paper also have the lowest rates of employment, sexual literacy, and school attendance rates. The rates of malnutrition are twice as high in the western provinces as in the eastern ones. (56) As for social movement and mobility, the western provinces have an enormous outflow of talented people to the coast: for example, 60% of college graduates from Inner Mongolia did not return to their hometowns after graduation. (49)

increasing inequality.<sup>4</sup> The common threads in each of the points in discussion are the prevailing ideologies of pragmatism and efficiency, which largely motivates the decision-making in regional development and therefore allows coastal-inland inequality to perpetuate. Recently, the government has turned to developing infrastructural and cultural capital within the inland regions with its “Opening Up the West” campaign. Though this campaign will certainly change the status of the increasing coastal-inland gap, there are many sociopolitical and institutional changes that must be addressed in other ways than economic pragmatism. In addition, the Chinese government seeks to double the GDP every ten years for the next few decades. (Zheng 2005, 23) With this in mind, the prospect of decreasing inequalities is seemingly hopeless as preference for coastal provinces results in the self-reproduction of social inequalities.<sup>5</sup> As China faces the costs of the transformation from Mao’s redistributive policies to Deng Xiaoping’s market-led reforms, coastal-inland disparities will continue to be exacerbated as long as the pragmatism and efficiency of the market-led growth determine policies.

### *Qingxie zhence*<sup>6</sup>

*Geographic and Topographic Advantages of the Coastal Provinces Creates “Preferential Treatment”*

During the shift from the Maoist ideologies to market-led policies, provincial self-sufficiency was no longer the dominant economic model. The Industrialization Programs that Mao established in western regions were meant to mitigate poverty levels. During the Vietnam War, he installed military-industrial complexes in the Xinjiang, Qinghai, and

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<sup>4</sup> Labor migration is not one of the issues represented in this paper. Though there are 15.3 million inter-provincial migrant laborers, in actuality, much of the labor movement is rural-to-urban within a province. Therefore, I considered inter-provincial labor movement a secondary coastal-inland issue.

<sup>5</sup> The “reproduction of social inequalities” is one of sociologist Pierre Bourdieu’s contributions to the analysis of how social structures perpetuate disparities.

<sup>6</sup> Comes from the Jones paper (8), a term for preferential policies

Ningxia provinces for the purposes of securing the borders and supplying the military; however, they ceased to operate during the market transition period beginning in 1978. (Kanbur 1999; Yu 2004) Naturally, there was a decrease in economic output without these industrial centers. To account for these contrasts in economic activity, research by Demurger, Jeffrey Sachs, et al. (2002) show that both geography and policy affects coastal-inland inequalities, but the influence of geographical factors increases inequalities in addition to policy-related factors (445-446).<sup>7</sup> This means that coastal provinces—rich in arable land and cooperative terrains—have a direct advantage over inland provinces topographically and geographically in respects to economic development. For example, the Northwest has the least amount of arable land at 8% compared to the 36% from the delta regions near the coastal urban areas. (Demurger 2002)

Because the majority of main waterways (i.e. Pearl River, Yellow River) flow in Eastern China, coastal provinces received low transportation rates when transporting necessary resources such as water (Demurger 2002). Proximity to the sea allows China to be involved in trade with surrounding countries (Bao 2002). In addition, the topographical diversity in the west added an extra disadvantage—the “three-step staircase” begins with a 4000m plateau in Qinghai province, transforms into a 1000-2000m series of highlands, and ends with coastal plains 1000m below sea level.<sup>8</sup> (ibid.) The inland provinces with natural resources and minerals are cumbersome and costly to transport across the terrain. (ibid.) With the goal of maximizing GDP output and efficient industries, expenses for transporting goods and investments in land with little agricultural

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<sup>7</sup> According to Demurger’s, et al. research, the policy coefficient of 0.01 remains constant and the magnitude of the geography coefficient increases from 0.0 to 0.04, which indicates that geographical factors give weight to the strong coastal coefficient (455). Another study by Shuming Bao, et al. (2002) concurs with this evidence, citing statistical significance.

<sup>8</sup> The Qinghai-Tibet plateau area has historically been the poorest area in China. (Bao 2002)

output are extraneous. The government's desire to minimize the costs of production and efficient management of their resources already set the non-eastern regions at a disadvantage.

***Wang qian kan***<sup>9</sup>

*"Prepare for Future Development!" (First, the Preferential Treatment of the Coast)*

Beyond geographical disadvantages, uneven development models exacerbated and perpetuated these inequalities. In 1978, the economic reforms made to change the instituted planned economy created entrepreneurial opportunity and social mobility (Bian 2002). However, in contrast to the investments for the inland regions under the planned economy, this strategic policy was reserved for only some regions, called *"Xian Fu Len"*—a policy to make somebody and some regions rich at first." (Jones, et al. 2003, 8; Minematsu, et al.1997, 11). Though Deng had the future development of the inland provinces in mind, the initial policies encouraged a pragmatic move, garnering results and economic growth.

The formation of special economic zones (SEZs) and special tax policies demonstrated the favoritism shown towards the coastal region. The SEZs were established to "take advantage" of the geographically endowed for speedy results. (Jones, et al. 2003, 8) In addition to the SEZs, the government created coastal free trade zones, and open border cities every few years until the early 1990s (8). Among the advantages for these zones, tax breaks, greater fiscal autonomy, and faster financial and legal approval accelerated the process of forming non-state-owned enterprises. (9) It is

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<sup>9</sup> *"Wang qian kan"* means "Prepare for future development/look to the future", but is also a pun for "Look for the money"

estimated that annual growth rate increases by about 5.5% because of these especially established zones (23).

In addition, the mere application of status to these zones makes them stand out as favorable economic areas in the minds of many Chinese and foreign investors. Jones, et al. (2003) considers these policies to be at the expense of inland China. (23) With China's accession of status in the World Trade Organization, the Chinese government has focused on developing certain regions to draw investments from abroad by creating attractive and aesthetic environments along with sophisticated infrastructure. (Holbig 2004; Minematsu et al. 1997, 17). With the acquisition of speedy transport, dependable energy resources and high-tech communication systems, China proves its ability to partner with its foreign investors by mirroring their consumption trends. (ibid.) The nation's acceleration in economic growth and infrastructure is impressive, but limits the foreign investment activity to the coastal provinces and metropolises.

### ***Feng zou chi fang***<sup>10</sup>

#### *"Eating from Separate Pots": Fiscal Decentralization*

When the Chinese government turned to market-led reforms for its economy, state-owned enterprises (SOEs) also experienced reforms. This created a tension between the coastal regions that had begun market-led growth and the inland regions that were still in the process of reforming their SOEs. (Minematsu et al. 1997, 42) While businesses in coastal regions sold export-intended products, local firms in the inland regions went out of business. (Lai 2002) When coastal enterprises purchased raw materials from inland provinces at very low prices, their exploitation produced a fortune. (ibid.)

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<sup>10</sup> This Chinese phrase is referenced from Hannum and Park's study on education and rural China. (Hannum n.d.)

Although reforms spurred the development of entrepreneurial ventures and infrastructure across the country, the decline of state-operated industries dissipated the taxation system, including taxes on small goods such as cigarettes and alcohol. (Hannum et al. n.d.; Lai 2002) Allotment of public funding and wages towards institutions, government workers, and ex-SOE employees was greatly reduced when richer regions did not transfer any resources. (Hannum et al., n.d.) In addition, western and central provincial governments did not reallocate any public funding; in fact, funding decreased. (Lai 2002) This was particularly problematic in the inland regions because their development was essentially put on hold until the late 1990s.

The decrease of public funding created great financial troubles for important institutions, particularly with the education system. Because the literacy rates in the inland provinces were particularly low to begin with, the achievement gap increased as schools struggled to stay afloat. (Hannum et al. n.d.) Teachers did not receive timely wages and school facilities were sub par. To compensate, fees were extracted from other sources, further depleting the means necessary to mitigate inequalities. Schools would even engage in commercial activities to acquire funds.

Furthermore, fiscal decentralization and the severely affected ethnic minorities since 56% of the population live in the inland provinces. Overall, the quality of education is increasing for ethnic minorities, but it is not changing as rapidly as those of Han Chinese, who mainly live on the coast. (Lai 2002) The slow improvement of schools leaves many ethnic minorities with a deficit in skills such as information technology. (Hannum et al. n.d.) The inhabitants in non-coastal areas, especially ethnic minorities, are left with less potential for skilled workers, improvements in health care, and advancement



in science and technology. With fiscal decentralization came the financial enhancement of already growing provinces and the reduction of already disadvantaged areas. The reproduction of social inequalities was therefore inevitable.

### ***Guoji daxunhuan***

#### *Regionalization through "Great International Circles"*

"In 1949, Beijing's Communist masters ended Xinjiang's role as a center of commerce; Mao closed its borders and shuttered its bazaars. But over the last two decades, as China has embraced capitalism, Xinjiang's links to the outside have revived. Borders have been reopened; traders are swarming into Xinjiang from across Asia; and Beijing has lavished billions on the province, in a "Develop the West" campaign that encourages Chinese businesspeople to invest there. The Silk Road, it seems, is back."

--*New York Times*, 2004

Xinjiang, one of China's most geographically western provinces is an interesting case for studying policies that perpetuate regional inequality. Despite its distance from the coast and from the Center, Xinjiang, known historically for the Silk Road, has been of particular interest as it is a province rich in natural resources and minerals. In fact, Xinjiang is thought to contain up to a third of China's oil and 115/147 of its minerals. (Christofferson 1993, 137-140) Thus, the government has determined policies that have both bolstered and detracted from the province's development from the end of the Maoist Era. Here, pragmatism, rapid development, and coastal preferences again determine economic development.

Because of its large minority population of the Muslim, Turkic Uighur people, its immense area, and its proximity to central Asian countries, Xinjiang has experienced perpetual tensions with the Han Chinese. (Kurlantzick 2004) Since the establishment of Chinese borders, there has been intentional migration of Han to and out of Xinjiang and

the other Western provinces for economic purposes. During the time of the Cultural Revolution, the government established and institutionalized relations between Shanghai and the Xinjiang provincial government, promoting the recruitment of skilled Han Chinese laborers and increasing economic output. (Christofferson 1993, 135) However, once the state-owned enterprises experienced “disintegrative effects” during the market-reform era, the Western provinces began strategizing over the local economy. (134)

In 1988, this took a turn as the Center began a policy of retrenchment to integrate the nation’s economy and take advantage of the coast’s growing need for resources. (Christofferson 1993, 144-145) Deng Xiaoping, responsible for the expansive economic growth, justified uneven development by reporting that there were “two overall situations” during this period: the coast would develop to a certain level, which would allow the progress of the inland regions. (Holbig 2004, 336) He emphasized the teleology of “right timing” (which turned out to be the early 1990s) so that the richer provinces could help with the burden of development. (342; 337) General Secretary Zhao Ziyang ushered in the second stage of the “two overall situations” in 1988 by heralding China’s “Great International Circle” (*guoji daxunhuan*) strategy. This allowed the coastal provinces to be able to both import and export goods by means of integration into the Asia-Pacific economic circle through export-oriented development. Here, inequalities surfaced as coastal provinces had access to world market and subsidized prices with the surrounding Asian economic tigers.

Inland provinces had their own regionalization policies. In the 1990s, Chinese policies attempted to mitigate these inequalities through similar circles; for Xinjiang, the Great Islamic Circle would allow for a “double opening” to trade with their Soviet

Central Asian neighbors as well as with Han China.<sup>11</sup> (Christofferson 1993, 139-150)

Though this boosted Xinjiang's HDI and GDP values to the upper-middle range, there was still a heavy focus on bolstering the coastal provinces.<sup>12</sup> Raw materials were regularly requested and shipped to the coastal region. In addition, the coastal provinces with large metropolises often weighted the distribution of the abundant fuel supply with Shanghai consuming 700kg a day compared to the 242kg in Xinjiang. (ibid.) Even with a regionalization program that has increased Xinjiang's GDP and HDI levels, coastal provinces still see much gain, sometimes at the expense of western provincial development.

By unfolding the policies that have shaped China's development, the market-led reforms have centered its ideology on pragmatism and GDP-enhancing policies. While China has prospered and garnered respect, these policies often exacerbate regional inequalities. With market-led reforms come geographical preference, the formation of SEZs, fiscal decentralization, and regionalization. As a result, the social reproduction of inequalities is perpetuated. However, it would be foolish to return to the Maoist ideology of self-sufficiency and a planned economy. Programs to transition the west into a developed region has the potential to alleviate disparities, but with the continued focus on rapid development and economic gain, the social reproduction of inequalities also exists in the western development campaign.

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<sup>11</sup> Other *guoji daxunhuan* included the Great Northeast Asian Circle with Soviet-Far East-Japan-Korean trade with the central provinces of Heilongjian, Jilin, and Liaoning; and the South China Business Circle with Hong Kong, Taiwan, Singapore, etc. and the coastal provinces of Fujian and Guangdong. (Christofferson 1993, 132)

<sup>12</sup> The HDI and GDP values for the upper-mid range is 0.75-0.80 and 9,000-14,000 respectively. (UN 2005) This sets Xinjiang apart from its surrounding provinces as they have some of the lowest HDI and GDP values. See appendix for HDI.

***Xibu da Kaifa******Planning for the Great Western Development***

As China considers its coastal-inland inequalities, the government is compelled to take action to alleviate disparities. The “Opening Up the West” campaign, the regional development plan addressing this inequality, has been on the table since premier Jiang Zemin declared in August 1999 that the “time is ripe” to fulfill the second half of Deng’s “two overall situations.”<sup>13</sup> (Lai 2002) The development plan was drafted in October 1999 with the expectation of different measures in four fields: 1) infrastructure construction, 2) ecological protection, 3) industrial restructuring, and 4) development of science and technology. (Holbig 2004, 347) Since then, inland provinces have seen the implementation of major infrastructure for transport, such as the recently completed Qinghai-Tibet railway.

With the initiation of the “Opening Up the West” campaign, what are some of the prevailing motivations and ideologies behind this development plan? The first is the “harmonious China” campaign as the nation prepares to showcase its best face for international events such as the 2008 Olympics. Secondly, China may be genuinely concerned about having a responsible central government that is attractive to the greater international community. (Holbig 2004, 356) Ideologically, the campaign has very much of the spirit of expediency and pragmatism—there is a desire to rapidly develop the west to what Deng calls “killing two birds with one stone.” (348). Not only would this be an opportunity to open up the west to the world as regions with economic gains as well as nation-wide economic integration. Much of the Center’s discourse centered around the

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<sup>13</sup> In 1999 and the years previous, Deng and Jiang and other government officials took tours around the inland provinces. Zhu Rongji, then in the Politburo, made a significant trip to the western provinces of Shaanxi, Yunnan, et al.

idea “that central finances spent for large infrastructure projects will more or less automatically enhance the integration of the western regions in the national socio-economic system.” (ibid.) There are two ideological assumptions here: self-perpetuating self-sufficiency and the heroic role of infrastructural development.

Despite praises in the Chinese news about newly installed roads and greening landscapes, the campaign has elusive development policies, shifting priorities and delayed implementation.<sup>14</sup> (Holbig 2004, 335) The nature of the policy is considered “soft”, which is an attempt to appeal to everything and everyone. (ibid.) Cumbersome new agendas are cropping up in the campaign. For example, the Western Region Development Office added the vague goals of “reform and opening-up” to the policy in January of 2000. (Holbig 2004); in addition, the plan has been pooled into the Tenth Five-Year Plan (2000-2010) to increase market competitiveness of western local products, improve economic growth and economic efficiency, promote science and technology and human resources, accelerate SOE reform, and so on. (ibid.) In April 2000, the SDPC added “ten major projects” to the campaign, which included the annual lists of large-scale infrastructure projects, natural gas and water pipelines to Central Asian countries, railway lines, expressways, and airports. With the already existing budget constraints and limited funding transfers from the coastal region, the addition of so many projects creates more delay for regional development that has been postponed for so long. (Lai 2002) Even with the right funds, will the Great Western Development alleviate social inequalities and create peaceful economic sufficiency?

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<sup>14</sup> The Chinese media has painted idyllic descriptions of the inland regions as the “prosperous and advanced new west where life is stable, ethnic groups are united, and the landscape is beautiful.” (Holbig 2004, 349)

**Attempts to *Kaifang****The “Opening”: Significant Sociopolitical and Institutional Issues*

Not only are there financial setbacks to the implementation of the “Opening Up the West” campaign, the ideology and goals of the plan fail to address social inequalities at a fundamental level. With efficiency and rapid development, social-ethnic relations have the potential to become intensify. In addition, the government can establish infrastructure in a region, but without social programs or diverse industries, significant human development issues will remain.

Han and ethnic minority tensions have increased as the government has instated western development programs. For example, the government is encouraged increased Han migration into the inland regions, but issues such as Han land reclamation and ethnic subordination has “seriously aggravated competition for limited jobs and educational opportunities”, which are already lacking for minority groups. (Lai 2002) As of 1993, the population of Han Chinese in Xinjiang province has grown to 40 percent. (Christoffersen 1993, 135) Furthermore, because unemployment and economic problems are severe, there is much potential for sociopolitical unrest as ethnic clashes have tended to be a major concern in western China. (ibid.) The government must also recognize that there are subtleties in ethnic tensions—much of the time, resentment towards the Han Chinese have to deal with the exploitation of their natural resources. (137) In time, as Han-minority relationships are allowed to develop and build social capital, ethnic tensions might decrease.

The increase of infrastructure and industries in the inland provinces could prove to be harmful if the hardware is developed without the software.<sup>15</sup> Because there is a large emphasis on rapid infrastructure development, the government has overlooked the need to create systems and social programs that “underpin any economy.” (Minematsu et al. 1997, 3). For example, in 1997, 10 of the 18 inland provinces only had market-development initiatives while 10 of the 12 coastal provinces generally had the same development policies. (ibid.) In addition, the research of Minematsu et al. (1997) has shown that the inland regions are promoting the same type of industries. Without diversity, there is potential for overproduction and a decline in competition.

There exist many other issues to explore regarding the campaign’s failure to mitigate social inequalities. However, the government has good reason to focus on ethnic tensions and institutional problems. These are issues that require innovative thinking that needs to be reconciled with the market-led reforms.

## Conclusion

This paper focused on unfolding the causes of coastal-inland inequalities and determined that the post-Maoist market-led values of efficiency and rapid development were often pragmatic for the purpose of economic growth. With the decline of state-owned industries, the inland provinces were left with what natural resources they had while because of geographic advantages, coastal economies had the opportunity to grow under low costs of transportation and production for goods. In an effort to make some regions rich first, the creation of SEZs and other economic zones established industries and attracted the money of foreign investors, thus increasing the economic inequality.

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<sup>15</sup> This phrase is borrowed from John Pomfret’s description of new developments in his 2005 book *Chinese Lessons*.

In addition, the decline and reform of SOEs caused fiscal decentralization in China. Institutions often lacked funding because there was no good taxation system to replace former state allocations. Institutions such as the education system suffered and the potential for skilled labor decreased. This happened especially among ethnic minorities because of the high population density in the western regions. Finally, regionalization of provinces into “Great Economic Circles” increased economic growth, but the “double opening” to both neighboring countries and coastal provinces still facilitated the exploitation of Xinjiang provinces resources. All of these policies perpetuated the reproduction of social inequalities through its pragmatism.

With the “Opening Up to the West” campaign, the development plan is still focused ideologically on expediency and infrastructural development. Setbacks to the “Great Western Development” include limited funds and government budgeting in addition to “soft” policy, which allowed others to add many new projects to the campaign, which was already experiencing delay. Finally, the government needs to make fundamental changes to the plans for this campaign to lessen Han-ethnic tensions and institutional problems. Perhaps efficiency and expedient development is not all that China needs; perhaps it needs the time to build social capital and develop social programs. Other important issues such as social mobility and ecological preservation would also be of particular interest as China increases its presence in the international community.



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## Appendix

1. "Exhibit 1: Classification of provinces by HDI." UN China Human Development Report 2005. p. 145
2. "Exhibit 4: Classification of provinces by per-capita GDP." UN China Human Development Report 2005. p. 148
3. "Exhibit 7: Classification of provinces by the average illiteracy ratio." UN China Human Development Report 2005. p. 151