

HOW GLOBALIZED ARE THE CHINESE PROVINCES?

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Executive Summary

1. More impressive than the stellar economic growth of China in recent decades has been the country's pace of embracing the global market. On average, exports and foreign trade expanded at nearly double the speed of per capita GDP and GDP during the period of 1978-2007. Even more striking was the annual increase of inflows of actually utilized foreign direct investments (FDI).
2. China's total foreign trade as a share of GDP grew from only 9.7 percent in 1978 to almost 66.8 percent in 2007; the share of exports in GDP rose from around 4.6 percent to about 37.5 percent. The average share of FDI in China's national GDP for the period of 1982-2007 was 2.56 percent. Indeed, China could be more integrated with the global market than most countries with which it is often compared in recent years.
3. But great variation in the extent to which their economies are open to the global market has existed among the provinces. Trade, exports and foreign direct investment played a far more important role in the provincial economies along the coast than in those inland during this period.
4. The coastal provinces also gained more rapid exposure to the international marketplace than their inland counterparts in the same period. Today some of the provincial economies along the Chinese coast can readily rank among the most open economies in the world whereas some of the inland provincial economies fall into the ranks of the world's most closed.
5. Such regionally differential integration with the world market is understandable in an economy of continental size, but it has helped contribute to the differential economic growth among the provinces and a yawning interprovincial economic gap in China during these years.
6. In general, the coastal provinces are much wealthier. Their per capita GDP averaged nearly 1,000 yuan and over 3,882 yuan during the 1978-1991 and

1992-2006 periods, respectively—twice as high as that for the inland provinces. The coastal provinces also grew faster in both periods, with their average per capita GDP growth of about 7.1 percent and 12.9 percent, respectively, compared with 6.9 percent and 10.7 percent for the inland cohort.

7. The growing schism between the coastal provinces thriving in the global marketplace and the inland regions that fared less well, in turn, fuelled growing disgruntlement with insufficient assistance from the central government among officials working in the inland provinces in the early 1990s.
8. This, in turn, might have aggravated the conflicts between the central government and the provinces as the former, in order to implement interprovincial fiscal redistribution, sought to centralize fiscal resources while the provinces that fared better in the global marketplace became more assertive in clamouring for greater fiscal autonomy.

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SHENG Yumin*

Chinese Provinces under Economic Globalization

- 1.1 More impressive than the stellar economic growth of China in recent decades has been the pace of the country's integration with the global market. Since 1978, the Chinese government has made great strides in lifting the country out of the semi-autarky of the previous decades and in opening up the economy to foreign trade, exports, and inflows of foreign capital. But all the Chinese provinces have not been able to participate in the international market to an equal extent.
- 1.2 Indeed, immense variation in the extent to which their economies are open to economic globalization has existed among the provinces. Overall, trade, exports and foreign direct investment played a far more important role in the provincial economies along the coast than in those inland during the 1978-2006 period. The coastal provinces also gained more rapid exposure to the international marketplace than their inland counterparts in the same period. Today some of the provincial economies along the Chinese coast can easily rank among the most open economies in the world whereas some of the inland provincial economies fall into the ranks of the world's most closed.
- 1.3 Such regionally differential integration with the world market is not surprising in a continental-sized economy, but it has helped contribute to the differential economic growth among the provinces and a yawning interprovincial economic gap in China during these years. The growing gap between the

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coastal provinces thriving in the global marketplace and the inland regions that fared less well, in turn, fuelled growing disgruntlement with insufficient assistance from the central government among officials working in the inland provinces in the early 1990s.¹ Attempts by the Chinese central government to redress deteriorating regional economic disparity through fiscal transfers, however, came at a time of declining fiscal resources in the central coffers.

1.4 The fiscal centralization drive launched by the centre in the early 1990s amidst its strained fiscal capacity also met with strong resistance from the more economically resourceful provinces along the coast.² For example, Ye Xuanping (叶选平), governor and vice provincial party secretary of Guangdong, publicly opposed the centre's centralization efforts and insisted upon continued fiscal autonomy for Guangdong. Another case involved Shen Daren (沈达人), provincial party secretary of Jiangsu, who openly disagreed with then vice premier Zhu Rongji (朱镕基) over the imminent 1994 fiscal reform to centralize revenue collection.³

1.5 Such tensions between the Chinese central government and the provinces echo the predictions of some popular economic theories of the rise of intergovernmental conflicts in the age of economic globalization.⁴ These conflicts must have abetted the centrifugal tendencies within China and posed new challenges, along the territorial dimension, to the national rule by the

¹ Shaoguang Wang and Angang Hu, *The Political Economy of Uneven Development: The Case of China* (Armonk, New York: M.E. Sharpe, 1999).

² For examples of journalistic coverage of rising local intransigence from these winner provinces in this era, see Robert Delfs, "Saying No to Peking: Centre's Hold Weakened by Provincial Autonomy," *Far Eastern Economic Review*, April 4 1991. Carl Goldstein, "South China: Resisting the Centre," *Far Eastern Economic Review*, September 2 1993.

³ Richard Baum, *Burying Mao: Chinese Politics in the Age of Deng Xiaoping* (Princeton: Princeton University Press, 1994), p. 327. Dali L. Yang, "Reform and the Restructuring of Central-Local Relations," in *China Deconstructs: Politics, Trade and Regionalism*, ed. David S.G. Goodman and Gerald Segal (London: Routledge, 1994), p. 86.

⁴ See, for instance, Alberto Alesina, Enrico Spolaore, and Romain Wacziarg, "Economic Integration and Political Disintegration," *American Economic Review* 90, no. 5 (2000).

centre during this period, feeding academic as well as journalistic speculations of the country's imminent territorial disintegration.⁵

China's Embrace of the Global Market

2.1 China's "miraculous" economic growth during the past three decades in the reform era has been well known.⁶ According to government official statistics, China's gross domestic product (GDP) and per capita GDP in real terms grew on average at 8.2 and 9.4 percent per annum, respectively, during the period of 1978-2007.⁷ By 2006, the country's GDP was over 11 times as large as it was when reform first began in 1978; its real per capita GDP jumped from about 263 yuan in 1978 to nearly 2,488 yuan in 2007 (both in constant 1950 RMB).⁸

TABLE 1 GROWTH OF CHINA'S ECONOMY, FOREIGN TRADE AND FDI

	1953-1977	1978-2007
Per capita GDP	3.9	8.2
GDP	6.1	9.4
Exports	4.2	14.2
Total foreign trade (exports+imports)	6.7	18.0
Actually utilized FDI	--	20.4

Source: Guojia Tongji Ju (1999, 2007, 2008)

Note: All numbers refer to period averages of annual real growth rates (in percentage). The constant 1950 RMB (with the general consumer price indices as the deflator) is used to calculate the real growth of GDP, exports, and trade. Due to its shorter series, the constant 1976 RMB is used for growth in actually utilized FDI which covers the period of 1983-2007.

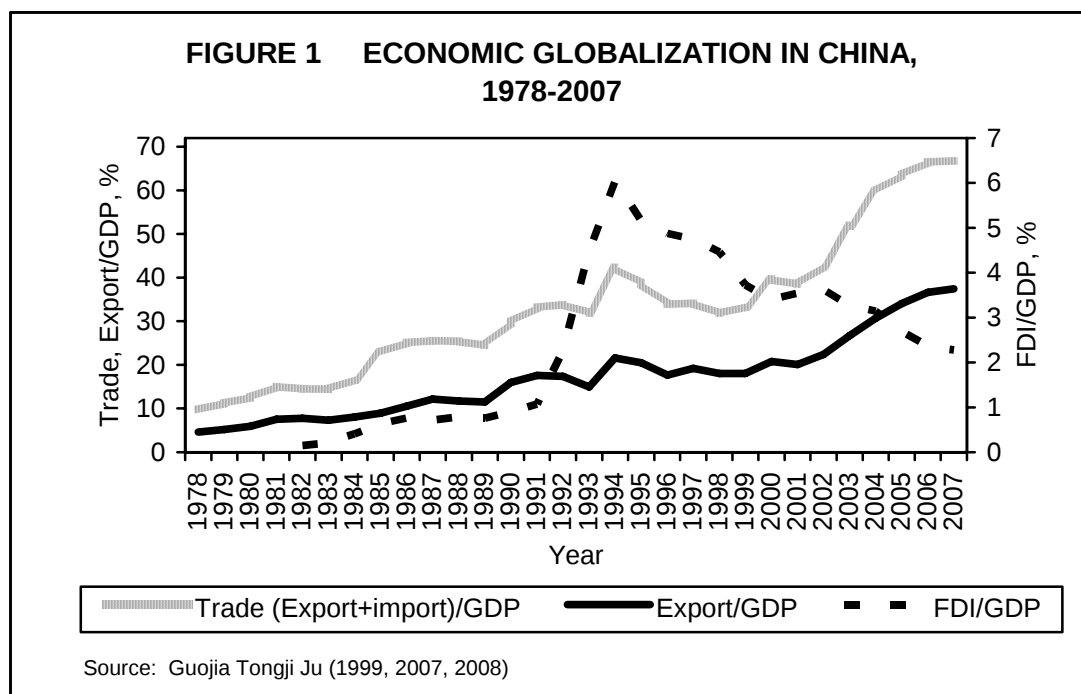
⁵ For examples of predictions of China's territorial collapse, see Gordon G. Chang, *The Coming Collapse of China*, 1st ed. (New York: Random House, 2001); and Jack A. Goldstone, "The Coming Chinese Collapse," *Foreign Policy*, no. 99 (1995). In Yumin Sheng, "Global Market Integration and Central Political Control: Foreign Trade and Intergovernmental Relations in China," *Comparative Political Studies* 40, no. 4 (2007), the author discusses why these threats from the provinces have not grown out of hand in China by examining the territorially selective exercise of political control over the provincial governments.

⁶ For one enthusiastic account, see (Lin *et al.* 1996)

⁷ The national-level data presented here are calculated in constant 1950 RMB, the Chinese currency. They cover a longer period and could be more conservative than those provided by the World Bank (2008), according to which the average annual real growth rates for GDP and per capita GDP during the 1978-2006 period are 9.7 and 8.5 percent, respectively. In 2006 the Chinese government published adjusted GDP data, from 1978 for national-level data and from around 1993 for provincial-level data. GDP data from 2005 (published in 2006) for all levels were reported according to the newly adjusted standards and thus no longer comparable to those from the earlier years. The author only reports the newly adjusted data in this brief.

⁸ In constant 2000 USD, China's per capita GDP rose from \$165 in 1978 to \$1,598 in 2006 (World Bank 2008).

2.2 Economic growth achieved by China in this period, however, was less impressive than the pace of its opening to the global market, as summarized in Table 1. While the economy did start to take off in the post-1978 era, a much larger spurt seemed to have occurred in its foreign trade and exports. Even in the same faster-growing latter period, performance for exports and trade far surpassed that of the national economy as a whole. On average, exports and foreign trade expanded at nearly double the speed of per capita GDP and GDP during 1978-2007. Even more striking was the annual increase of inflows of actually utilized foreign direct investments (FDI), on average by as much as 20.4 percent during 1983-2007.



2.3 China's overall degree of economic globalization, as measured by the conventional indicators, witnessed a sharp rise during this period. As shown in Figure 1, China's total foreign trade as a share of GDP grew from only 9.7 percent in 1978 to almost 66.8 percent in 2007; the share of exports in national GDP increased from around 4.6 percent to about 37.5 percent. On average, trade/GDP share for 1978-2007 was 33 percent while that of 1953-1977 was

only 8.1 percent.⁹ Indeed, China could even be more integrated with the global market than some countries with which it is often compared in recent years.¹⁰

- 2.4 The role of FDI in the Chinese economy also rose sharply during the period. *Actually utilized* FDI inflows, as a share of GDP, reached 6.04 percent in 1994, up from a minuscule 0.15 percent in 1982. Although its importance has slightly diminished in more recent years, FDI still maintained a considerable presence in the national economy as late as 2007, at 2.28 percent. The average share of FDI in China's national GDP for 1982-2007 was 2.56 percent, making it a significant component of the economy even in comparative perspective.¹¹ In short, post-1978 China has taken great strides in embracing the global market.

The Provincial Dimension of Economic Globalization

- 3.1 What has largely been hidden behind the national-level picture sketched above of China's overall swift opening to the international market in the recent decades is the immense provincial-level variation in the degree of economic globalization, especially between provinces located along the coast and those inland.
- 3.2 To be sure, consistent with the national-level trends, Chinese provinces across the board has witnessed rapidly growing exposure to the global market during this period. But the coastal provinces have been far more integrated with the international marketplace than have their inland counterparts in terms of their ability to conduct foreign trade and exports, and to attract foreign capital. Table 2 presents the broad patterns of such provincial-level differences. The

⁹ Data for China's foreign trade and GDP from World Bank (2008) start from 1970, with average trade/GDP share being 7.9 for 1970-1977, and 38 percent for 1978-2006.

¹⁰ For instance, comparable figures for India, another large developing country, are 10.2 and 21.5 percent, respectively. For the United States, they are 14.3 and 21.4 percent, respectively.

¹¹ During 1980-2006, average FDI/GDP share was only 0.43 percent for India, and 1.07 percent for the United States (World Bank 2008).

data were grouped into roughly two equal periods of 1978-1991 and 1992-2006 to provide a crude sense of possible temporal changes over the years.¹²

TABLE 2 ECONOMIC GLOBALIZATION AMONG CHINA'S PROVINCES, 1978-2006

Provinces	Trade/GDP (%)		Export/GDP (%)		FDI/GDP (%)	
	1978-91	1992-2006	1978-91	1992-2006	1978-91	1992-2006
Beijing	10.8	29.6	8.2	13.3	2.3	5.3
Fujian	14.8	57.7	9.7	35.5	1.2	9.9
Guangdong	28.0	134.1	18.5	75.9	2.4	9.6
Guangxi	7.7	11.6	6.2	7.8	0.3	2.6
Hainan	39.5	36.9	19.7	15.4	5.5	11.6
Hebei	7.5	10.3	6.8	7.6	0.1	1.6
Jiangsu	8.1	48.7	6.7	28.0	0.3	6.6
Liaoning	22.9	34.9	21.3	21.9	0.4	4.2
Shandong	11.5	25.5	9.3	16.7	0.2	3.7
Shanghai	31.6	96.7	24.0	49.1	0.8	7.5
Tianjin	27.6	74.1	22.6	38.8	0.6	8.9
Zhejiang	7.2	39.2	6.2	27.8	0.2	3.2
Anhui	3.1	10.6	2.5	6.6	0.1	1.2
Chongqing		9.3		5.2		1.5
Gansu	2.4	7.3	2.0	4.6	0.0	0.5
Guizhou	2.1	6.3	1.4	4.0	0.1	0.4
Heilongjiang	4.9	12.3	3.7	6.9	0.1	1.1
Henan	3.0	5.4	2.7	3.9	0.1	1.0
Hubei	4.9	9.7	4.2	6.0	0.1	2.3
Hunan	4.4	8.6	3.6	5.8	0.1	2.0
Inner Mongolia	3.4	10.5	2.5	4.9	0.0	0.9
Jiangxi	4.4	8.6	3.7	6.4	0.1	2.7
Jilin	6.1	16.8	4.6	7.9	0.1	1.9
Ningxia	5.3	11.6	4.3	9.1	0.0	0.6
Qinghai	2.8	6.8	2.1	5.4	0.2	1.1
Shaanxi	4.6	10.9	2.2	7.3	0.7	1.7
Shanxi	3.1	9.4	2.5	7.1	0.0	0.8
Sichuan	2.6	8.1	2.0	4.8	0.0	1.1
Tibet	3.7	13.0	1.4	5.4		0.4
Xinjiang	5.6	15.1	3.7	8.4	0.2	0.3
Yunnan	4.5	9.8	3.2	6.0	0.1	0.5
Coast	18.1	49.9	13.3	28.2	1.2	6.2
Inland	3.9	10.0	2.9	6.1	0.1	1.2

Source: Provincial trade, export, and FDI data for 1978-1985 are from Guojia Tongji Ju (1999); those for 1986-2002 are from China Ministry of Foreign Trade and Economic Cooperation (1987-2003); and those for 2003-2006 are from China Ministry of Commerce (2004-2007). Provincial GDP data for 1978-1998 are from Guojia Tongji Ju (1999); those for 1999-2006 are from Guojia Tongji Ju (2000-2007).

Note: The coastal provinces are in bold. Data are provincial averages of 1978-1991, and of 1992-2006. Hainan's data start from 1988 and Chongqing's data start from 1997, when they first became provincial-level units, respectively. Data from Hainan for 1978-1991 are averages of 1988-1991. Data from Chongqing for 1992-2006 are averages of 1997-2006. FDI data are actually utilized values. They refer to *gross*, not *net* inflows as systematic provincial-level net inflow data are sparse. Starting years for FDI data vary with the province, ranging from 1980-1985. Data before 1985 for the provinces are sparse. FDI data for Tibet only cover 2005-2006.¹³

¹² The famous "southern tour" of Deng calling for even further reform and opening also took place in 1992. Thus the changes afterward could also be examined here.

¹³ See also Sheng, "Global Market Integration and Central Political Control", p. 430, footnote 12 for more details on the Chinese provincial data used here.

Trade and exports

- 3.3 During the periods of 1978-1991 and 1992-2006, the coastal provinces have had more open economies than have the inland ones in terms of their ability to trade and export abroad. In fact, some Chinese provincial economies in the coastal area were comparable to the world's most globalized economies in terms of their dependence on foreign trade during this period.
- 3.4 For example, in 2006 foreign trade constituted about 232.6 percent of the provincial GDP for Guangdong, the poster child of China's opening to the global market and the country's most foreign-trade-dependent province and top exporter during 1992-2006.¹⁴ This number was higher than that of Malaysia, the fifth most globalized economy among about 139 individual economies around the world for which data on trade and exports are available for year 2006 as of August 2008. Guangdong was only behind Singapore, Hong Kong, Luxembourg, and Seychelles. In 2006, Shanghai's trade/GDP share registered 174.95 percent, which is higher than that of Belgium, the world's ninth most open economy.
- 3.5 Moreover, these provinces also boasted the world's leading exporting economies. In 2006, exports contributed 133.2 percent of Guangdong's provincial GDP and 87.4 percent of Shanghai's. This would make Guangdong the fourth most export-oriented economy in the world for that year, only behind Singapore, Hong Kong, and Luxembourg; Shanghai would rank as the tenth, even ahead of Belgium.
- 3.6 Such high exposure to the global marketplace, however, was by no means uniform across all provinces. Paradoxically, some Chinese provincial economies could also rank among the world's most closed. In 2006, for instance, foreign trade and exports only made up about 5.6 and 3.6 percent, respectively, of the GDP of Guizhou, a mountainous inland province with

¹⁴ While it would potentially be problematic to use at the subnational level measures such as GDP and foreign trade which should apply in a strict sense to national economies, it is more permissible to do so for a large country such as China or the United States where one subnational unit is often comparable to a normal-size country elsewhere.

treacherous terrain in the southwest of China. They constituted about 6.3 and 4.3 percent, respectively, of the GDP of Henan, another inland province that has also been China's most populous since 1997.

- 3.7 While Guizhou had the least open provincial economy in China in 2006 in terms of its dependence on foreign trade and exports, on average the economy of Henan was the most closed during 1992-2006. For 2006, both were much less exposed to the international market than any of the 139 individual economic entities whose data were provided by the World Bank (2008). In fact, in terms of trade/GDP share, in the post-1991 period the two provinces seemed only to be doing better than Myanmar, arguably the most closed economy in the world before the country stopped reporting such data in 1997 altogether.
- 3.8 The wide (and widening) gap in the extent to which they are exposed to the global market between the two largely geographically based provincial cohorts has also been similarly reflected in the cross-period changes. Indeed, between the 1978-1991 period and the 1992-2006 period, the coastal provinces which had been more globalized all along on average also took greater strides than did the inland cohort in opening up to the international market through foreign trade and exports, both in absolute amount of difference and relative speed of change.
- 3.9 Table 2 also shows that some of the most globalized provincial economies such as those of Guangdong, Shanghai, and Tianjin also witnessed the largest increase in the role played by trade and export in their provincial economies. In contrast, most provincial economies in the inland had achieved relatively smaller progress in opening up to the world market.¹⁵

¹⁵ To be sure, Hainan, a coastal province which was part of Guangdong until 1988, actually witnessed some decrease across the two periods. This could reflect the fact that only four years' worth of data were used for calculating its trade/GDP and export/GDP shares during the 1978-1991 period. The overall picture of the sharp differences between the coastal and inland provinces is still unmistakable.

Foreign direct investment (FDI)

- 3.10 A similar picture of substantial provincial-level variation between the coastal and inland provinces could largely be painted on the front of attracting foreign capital. The island province of Hainan, for instance, boasted the highest average FDI/GDP share during the latter period of 1992-2006. In 1995, actually utilized FDI contributed as much as 24.4 percent of Hainan's GDP, an all-time high at the provincial level during the entire 1978-2006 era. Perhaps reflecting the general decline in FDI importance in the Chinese economy after the mid-1990s as depicted in Figure 1, as well as the continuing expansion of China's GDP, however, double-digit shares of FDI in the provincial GDP have become rare since 2000. In 2006 when Tianjin topped the list among all provinces, for instance, FDI only made up around 7.6 percent of its GDP.
- 3.11 Nevertheless, even single-digit percentage shares in provincial GDP could translate into huge capital inflows in absolute amount for the destination provinces. For example, Guangdong's FDI/GDP share was about 5.4 percent in 2006, with an inflow of around 17.8 billion USD (or nearly one fourth of China's actually utilized FDI that year). However, Guangdong could handily rank as the world's fourth largest destination in terms of absolute level of FDI inflows among the 135 individual economic entities whose data were reported by the World Bank (2008) for that year. It was only behind China, Canada, and Turkey.¹⁶ In other words, Guangdong alone attracted more FDI than did most of other major country-recipients of FDI around the globe such as Luxembourg, Singapore, Mexico, and United Kingdom.
- 3.12 In contrast, the role of FDI has remained minor in the economies of most inland provinces throughout these years, including the heyday of the 1990s. For instance, in 1993 when China's net FDI inflows constituted the highest share of the country's GDP during the entire period of 1978-2006, actually

¹⁶ Some caution is in order here because the World Bank reports country *net* FDI inflows presumably taking into account capital outflows. China only reports *gross* utilized FDI data for the provinces. There is thus no information on provincial capital exodus.

utilized FDI contributed less than 0.17 percent to the provincial GDP of Qinghai, a remote inland province in the west of China.

- 3.13 On average, the FDI/GDP share for the inland provinces was only 1.15 percent for the inland provinces as a whole in 1993, compared with 7.35 percent for the coastal cohort. To be sure, the average FDI/GDP share for the inland provinces climbed to about 1.65 percent by 2006. Still, the share for Gansu, another inland province in the west, was only 0.1 percent that year when the province raked in only about 29.5 million USD of FDI.
- 3.14 To be sure, as seen in Table 2, compared with the 1978-1991 period, the importance of FDI in the provincial economies of the inland has increased manifold during the latter 1992-2006 period. Nevertheless, in terms of absolute magnitude, by and large a larger increase in the role of FDI occurred in the coastal economies as their average FDI/GDP share reached about 6.2 percent in the latter period, from about 1.2 percent earlier, with a difference of about 5 percent. Indeed, while *none* of the provinces with a cross-period difference in FDI/GDP share of 3 percent or more was located in the inland, the difference for some coastal provinces such as Fujian and Tianjin was well above 8 percent.
- 3.15 Such patterns of regional differences between the coastal and inland provinces in the importance of FDI in their respective economies are consistent with the variation in provincial exposure to the global market through foreign trade and exports. After all, FDI in China has played a vital role in promoting the country's foreign trade and been responsible for a sizable portion of its exports during the reform era. While foreign-invested enterprises (FIEs) accounted for only 0.8 percent of total foreign trade and 0.2 percent of exports in 1982,¹⁷ for example, the figures already surpassed 50 percent in both categories by 2001.¹⁸

¹⁷ Jun Fu, *Institutions and Investments: Foreign Direct Investment in China During the Reform Era* (Ann Arbor: University of Michigan Press, 2000), p. 4.

¹⁸ Guojia Tongji Ju, *Zhongguo Tongji Nianjian 2002 [China Statistical Yearbook 2002]* (Beijing: Zhongguo tongji chubanshe, 2002), Tables 17-3, 17-12.

TABLE 3 ECONOMIC WEALTH AND GROWTH AMONG CHINA'S PROVINCES, 1978-2006

Provinces	Per capita GDP (1977 yuan)		Per capita GDP growth (%)	
	1978-1991	1992-2006	1978-1991	1992-2006
Beijing	1781.2	6615.4	4.8	13.6
Fujian	1560.6	6004.4	4.9	14.8
Guangdong	557.9	2303.3	7.5	12.2
Guangxi	1024.6	3106.3	6.1	10.3
Hainan	2682.8	9257.6	2.2	14.0
Hebei	770.3	3405.3	8.4	14.4
Jiangsu	702.1	3675.7	10.7	14.5
Liaoning	507.0	2681.5	10.3	12.9
Shandong	675.4	3202.2	10.0	13.6
Shanghai	668.1	3597.1	9.9	13.3
Tianjin	337.3	1162.9	6.6	10.8
Zhejiang	617.1	1574.2	4.2	9.9
Anhui	587.6	1813.8	6.7	11.8
Chongqing	554.7	2083.1	7.6	13.8
Gansu	629.7	1999.3	6.7	11.2
Guizhou	763.2	2094.1	4.9	9.7
Heilongjiang	453.0	1357.2	6.6	10.9
Henan	421.3	1381.5	6.5	11.3
Hubei	438.0	1837.5	8.4	13.1
Hunan	570.9	1680.3	7.6	11.3
Inner Mongolia	422.9	1231.8	6.0	10.2
Jiangxi		1878.1		12.2
Jilin	404.4	1242.5	8.6	10.0
Ningxia	298.4	766.5	8.2	8.9
Qinghai	394.5	1283.8	9.7	8.8
Shaanxi	523.2	1194.6	4.9	10.4
Shanxi	453.4	1357.5	7.0	10.9
Sichuan	457.4	1174.3	4.6	10.0
Tibet	583.8	1370.6	5.4	9.1
Xinjiang	535.7	1534.1	5.1	10.5
Yunnan	611.4	1895.1	9.2	9.1
Coast	990.4	3882.2	7.1	12.9
Inland	505.8	1535.6	6.9	10.7

Source: Provincial GDP and population data for 1978-1998 are from Guojia Tongji Ju (1999); those for 1999-2006 are from Guojia Tongji Ju (2000-2007).

Note: The coastal provinces are in bold. Data are provincial averages of 1978-1991, and of 1992-2006. Hainan's data start from 1988 and Chongqing's data start from 1997, when they first became provincial-level units, respectively. Data for Hainan for 1978-1991 are averages of 1988-1991; those of Chongqing for 1992-2006 are averages of 1997-2006. Per capita GDP and its growth rates are in constant 1977 RMB yuan, deflated with provincial general retail price indices.

Economic Consequences at the Provincial Level

- 4.1 Consistent with cross-national evidence linking greater foreign trade, exports, and FDI inflows with faster economic growth, China's embrace of economic

globalization during the era of reform and opening has contributed to the country's impressive growth record. Varying degrees of exposure to the global market for the different provinces, however, have led to differential rates of provincial economic growth as more globalized provinces have witnessed faster economic growth. This has contributed to rising regional disparity in China, especially along the coast-inland divide.¹⁹

- 4.2 Both groups of provinces have gained economically from the opening to the global market during these years, as seen in Table 3 where the provincial data on the level (real per capita GDP at constant 1977 RMB) as well as the pace of economic development (the percentage growth rates of real per capita GDP) during the 1978-2006 period for the two geographic cohorts are summarized.
- 4.3 Indeed, even the inland provinces enjoyed impressive growth rates of over 7 percent and 10.7 percent in real per capita GDP during the 1978-1991 and 1992-2006 periods respectively. In terms of absolute numbers, average real per capita GDP for the inland provinces rose from 506 yuan during the 1978-1991 period to about 1,536 yuan during the 1991-2006 period. Nevertheless, the coastal provinces seem to have benefited to a greater extent from the country's embrace of the global market.
- 4.4 In general, the coastal provinces are much wealthier. Their per capita GDP averaged nearly 1,000 yuan and over 3,882 yuan during the two periods, respectively—twice as high as that for the inland provinces. In 2006, for example, coastal Shanghai's real per capita GDP reached nearly 20,000 yuan, followed by that of Beijing at 14,828 yuan. In contrast, in the same year real per capita GDP in Guizhou, one of the least globalized provinces, was only about 1,476 yuan, and in inland Yunnan province real per capita GDP was only 2,319 yuan.

¹⁹ See, for instance, Masahisa Fujita and Dapeng Hu, "Regional Disparity in China 1985-1994: The Effects of Globalization and Economic Liberalization," *Annals of Regional Science* 35, no. 1 (2001), and Ravi Kanbur and Xiaobo Zhang, "Fifty Years of Regional Inequality in China: A Journey through Revolution, Reform and Openness," *Review of Development Economics* 9, no. 1 (2005).

- 4.5 The point is not that the degree of economic globalization is the sole determinant of the level of provincial wealth. Rather, overall the more globalized coastal provinces tended to fare better economically than their inland counterparts less integrated with the global market during the post-1978 era. Indeed, the coastal-inland divergence in both economic openness and wealth level is unmistakable.
- 4.6 After all, the top ten wealthiest provinces in China during the 1992-2006 period were all highly exposed to the global market and located along the coast. The coastal provinces also grew faster in both the 1978-1991 and 1992-2006 periods, with their average per capita GDP growth of about 7.1 percent and 12.9 percent, respectively, compared with 6.9 percent and 10.7 percent for the inland cohort. These differential growth rates imply that the economic gap between the inland and coastal provinces in China might have further widened over these years.
- 4.7 The picture portrayed by the broad-gauged provincial-level data only serves descriptive purposes, and could at best pinpoint possible positive correlations between the degree of economic openness and economic wealth/growth among the provinces. Still, it indicates that during the post-1978 period the coastal provinces have become more integrated with the international market, and they have benefited more than have the inland provinces. There do appear to have been regional winners and losers, or more precisely, bigger and smaller winners, directly or indirectly based upon a province's geographic location. More economic resources seem to have flown to and/or been generated in the coastal provinces which have fared better in the global marketplace.