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NEW DEVELOPMENT STRATEGIES AND RECENT CHANGES IN CHINA'S FOREIGN TRADE

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Abstract: This paper clarifies some characteristics of China's economic growth and international trade after 1978. It also reviews recent developments in foreign trade in the form of local border trade. Basic problems of border trade in light of recent development strategy are also discussed. The analysis proceeds not only on a nationwide level, but also on a local or provincial level. Emphasis is placed on the growth of local border trade, on the impact of such trade on the local economy, and on the importance of the trade to the nation and provinces.

INTRODUCTION

This paper intends to clarify some characteristics of China's economic growth and international trade after institution of economic reform and open-trade policies in 1978. It will also review recent developments in foreign trade in the form of local border trade. Basic problems of border trade in light of recent development strategy are also discussed. The analysis proceeds not only on a nationwide level, but also on a local or provincial level. Emphasis is placed on the growth of local border trade, on the impact of such trade on the local economy, and on the importance of the trade to the nation and provinces.

In the first section, I will discuss economic growth and changes in foreign trade from a macro-economic point of view. In the second section, the structure of international trade in border areas is taken up to explore its roles in border area provinces. The third section reviews data on the increase in local border trade. Finally, I discuss some problems of the new economic strategies which pursue reform and open-trade policies in inland area in relation to the newly expanding border trade within them.

Acknowledgement. In preparing this paper, I am deeply indebted to Professor Sumio Kuribayashi who gave important advice and valuable comments on the draft. Professor Seiichi Nakajima was very helpful in suggesting data and information, and in letting me use some of the papers, newspaper articles and other papers on the subject he collected from various sources. Economists and researchers of the China and North Asia Division, Japan External Trade Organization were generous in giving me the access to necessary statistics and data. I alone am responsible for any errors.

1. ECONOMIC GROWTH AND CHANGES IN FOREIGN TRADE

International trade of China has expanded dramatically over these fifteen years after the 1978 adoption of economic reform and open-trade policies. The trade structures have also changed greatly. In this section, I first analyze the macro-economic relations between economic growth and foreign trade in China. Then, I review the characteristics of changes in China's foreign trade in terms of commodity composition. Third, I next review changes in the geographical composition of China's trading partners.

1.1. Rapid Economic Growth and External Disequilibrium

After the adoption of economic reforms and open-trade policies, the value of China's international trade was $38.14 billion in 1980, with exports of $18.12 billion and imports of $20.02 billion. In 1991 it grew to $135.63 billion (exports were $71.84 billion and imports $63.79 billion). Average annual growth rates from 1980 to 1991 were 12.2% for total trade, 13.3% for exports and 11.1% for imports. These are higher than the 9% annual average GNP growth for the same period. The value of total trade increased by about 3.6 times over the same period. The ratio of exports to GNP has grown from 6.1% to 19.6%. Thus, China's economy has become more open since 1980.[1)]

More detailed analysis of growth in GNP and trade, however, reveals that below the averages there were wide fluctuations or large imbalances in GNP and trade. The data about percentage changes for nominal GNP, exports and imports between 1979 and 1992 suggest that an expansion of the national economy in one year stimulated an increase in imports much faster than GNP growth rate in the following year. A slowdown caused a much reduced growth or an absolute decline in imports. A rapid increase in exports seems to have led to an expansion of overall economic activities in the following year. Take the period between 1979 and 1982, for example, when nominal GNP growth rates of about 11.4–11.8% in 1979 and 1980 were followed by slower GNP growth of 6.8%. This slowdown was followed by a sharp decline in the expansion rate of import in 1982. Also, a faster GNP growth in 1984 (about 19%) was followed by nominal import increase of about 100% in 1985. A GNP slowdown in 1986 was followed by a slower import growth in 1986/87. A faster GNP growth in 1987/88 saw a faster import expansion in 1988. In the early 1990s, however, a slower 1990 GNP growth was followed by a faster import expansion in 1991. A faster growth rate in 1991 did not lead to a faster import increase the following year.

This clearly shows that China's imports have fluctuated much more widely than the national economy and appear to be influenced by the level of the latter's activities. Export fluctuation, however, has been less than imports but more than GNP. This suggests that the growth rate of exports is more dependent on stable

[1] The figures quoted here are calculated from *China Statistical Yearbook*, 1993.

external demand, although the capacity to export itself is determined by the overall productive capacity of the national economy.

Such synchronization of GNP growth and changes in international trade, especially imports, suggests a macro-economic relations between GNP and imports through market mechanism.

The data about marginal import propensity and income elasticity of import, however, do not support this (the figures are not shown here). Instead, economically "irrational" behavior markedly increase variance by changing the parameter itself, i.e., the marginal propensity to import, which is usually thought to be more stable than that observed.[2] Such wide movement of the *mpi* parameter is better understood if one assumes a close link between import fluctuation and producer excess. These behaviors are considered irrational in terms of reasonable decision-making in a market system. But they can also be interpreted as "rational" in terms of a production-maximization process under a central planning system where production norms are commanded from the top.

Let us now examine overall Chinese economic growth as indicated by the macro-economic performance reviewed above as well as structural changes in industrial and regional activities. We shall see how these factors have been affected by growth levels in different regions. To do so, we must first consider how Chinese economic growth after 1980 was affected by industrial and policy changes.[3]

At the beginning of the 1980s, Chinese industrial development policies stressed priority development of the coastal regions in the southeastern and eastern parts of the country. This stress was evident by shifts in basic construction investments by the central government toward the coastal regions away from the mid-western or inland areas. Before this, the industrial development policies of China after the establishment of the Peoples' Republic first sought the rehabilitation of the northeast, followed by the mid-west, interior regions, and then dispersion of industry throughout the country. After the adoption of more open reform policies in the late 1970s, more decentralized and more market-oriented strategies of industrial development were pursued.

In one sense, such policy changes enabled China to achieve relatively faster economic growth in the 1980s by the introduction of market system into the

[2] Here, the marginal propensity to import in each year is calculated from the following equation: $(M_t - M_{t-1})/(Y_t - Y_{t-1})$, where M_t is the value of imports in year t, M_{t-1} that in one year before t, Y_t is national income in year t, and Y_{t-1} that in one year before t. And the marginal propensity to import with one year lag is calculated from the following equation: $(M_t - M_{t-1})/(Y_{t-1} - Y_{t-2})$, where Y_{t-2} is national income in two years before t.

[3] For more detailed discussions concerning these questions, see, for example, Nobuo Maruyama, ed., *Chôkô Ryûiki no Keizai Hatten* (*Economic Development in the Yangze River Region*): *Chûgoku no Shijô Keizaika to Chiiki Kaihatu* (*Shift to Market Economy and Regional Development in China*) (in Japanese), Institute of Developing Economies (IDE), 1993; *idem*, ed., *90 nendai Chûgoku Chiiki Kaihatu no Sikaku* (*A Perspective of Chinese Regional Development in the 1990s*) (in Japanese), IDE, 1994; S. Kuribayashi, ed., *Chûgoku no Chiiki Keizai* (*Regional Economy in China*): *enkai kara nairiku he* (*from the coastal to the inland regions*) (in Japanese), Japan External Trade Organization (JETRO), 1993.

economy. They also facilitated greater integration in the world economy by extending an international division of labor. In this period the economy seems to have moved toward a more rational allocation of economic resources and a more reasonable division of labor among the different regions according to their comparative advantage. The key concepts here are the introduction of a market system and the expansion of regional economic autonomy, or decentralization of national economic management and regional decision-making.

From another perspective, however, excessive fluctuations in the macro economy suggest that the process toward market mechanisms and regional autonomy have aggravated macro-economic imbalances of the national economy partly because of malfunctions in the introduction process and partly because of centrifugal forces related to the moves for regional autonomy.

The development policies which gave priority to the coastal regions caused relatively faster growth in these regions, while retarding others. The strategy had also created some imbalances in terms of industrial structure and regional industrial development. The coastal development policies, following more rational economic principles, had attained relatively more rapid growth in light manufacturing throughout the coastal regions. The same policies, however, produced structural bottlenecks, where relatively retarded heavy/chemical and material sectors of the economy could not fully respond to expanding demand for their products by the rapidly growing sectors. The disadvantaged sectors, located in the interior mid-western regions, also increased their demand for materials and input goods (intermediate and capital goods) under the more decentralized, autonomous system introduced in each region. They resulted in excessive demand for producer goods. Thus, the coastal regions became more dependent on imported raw materials and input goods, which dramatically expanded import demand during the economic boom. These were the main effects of regional growth upon Chinese national economic growth.

Such macro and structural/regional imbalances led the government in the 1990s to adopt new industrial development policies which would pursue more stable macro-economic performance and more balanced structural and regional economic growth. First, recent economic growth rates have become more or less controlled within certain limits or under a certain ceiling to prevent excessive inflationary pressures and balance of payment deficits. The economic forces for rapid growth in the early phase of development, however, seemed, in some cases, too strong to be effectively controlled. Second, more balanced development of industries among different regions also received new emphasis in a new strategy for developing three regions: those along the coast, along the *Yangze* river, and along the national border. Third, malfunctions of "marketization" and the local tendencies of regionalism became targets to overcome through more complete introduction of market mechanism and more rational and open regional autonomy. The second and the third policy changes, concerned with structural and regional development, are stimulating regional economic growth and interna-

tional trade in the non-coastal areas. They have also been especially effective in enhancing industrial development and trading activities in border areas and are the main forces for the recent prosperity of border trade with neighboring countries.

It seems possible to conclude that the wide fluctuations in China's economy and trade are due to the older type of imbalances between overall demand and supply being influenced by an insufficient market system and the remnant of a socialist economy on the one hand, and closed or self-centered regionalism on the other. The expansion of domestic economic activities tends to become much wider than the levels the national planning authorities can expect. This increases investment and import demands more rapidly, so that external trade deficit imbalance occurs.[4] To reduce the trade deficit, the government often abruptly slows down the growth rate. This, however, makes the fluctuations become more acute. This macro-economic imbalance mechanism by the central planning system and the insufficient function of the market system seems to be an important cause of the unstable performance of the Chinese economy in the 1980s and the early 1990s. In addition, external borrowing that makes it possible to lessen current external imbalances would aggravate the situation in the long-run by enlarging fixed capital formation in the boom period through expanded imports.

There are more effective ways to correct such a situation. First, remove remaining myopic behaviors of producers and the remaining socialistic factors that would lead people in the wrong directions. Second, introduce a more complete market system that can rationalize the economic activities of producers. Third, stop unnecessary reliance on external sources for domestic capital formation. Diffusion of the market system may be most important in the sense that the price mechanism would lead the economy to restrain unnecessary imports, strengthen export capacity, and therefore improve external imbalances by decreasing the trade deficit. This would mitigate the heavy fluctuations of the economy that accompanied rapid economic growth.

1.2. Changes in the Commodity Structure of Trade[5]

Through rapid economic growth in the 1980s, in spite of its fluctuations, Chinese economic structure has changed to a great extent, and with it the trade structure has also altered remarkably. In 1980, primary commodities were 50.3% of China's exports. This share was 20.1% in 1992. In the same period industry's share of exports grew from 49.7% to 79.9%. This suggests that "industrialization"

[4] See Nobuo Maruyama, "*Kaihô Seisaku to Kôgyôka* (*Open Policies and Industrialization*)," in *idem*, ed., *Chûgoku no Kôgyôka* (*Industrialization of China*)—*unstable path for market-oriented system*, IDE, 1992, Chapter III, pp. 126–147. Also, see JETRO, *Tsûshô Kôhô*, January 18, 1993, pp. 10–13. As for the trade control system in China, see Sueo Kojima, "Reforms of Trade Control system," in Reiitsu Kojima, ed., *Economic Reform in China*, *Keisô Shobô*, April 1988, Chapter 11, and JETRO, China Data File, 1992, pp. 149–150.

[5] The figures quoted hereinafter are calculated by the author from *China Statistical Yearbook*, various issues, and *Statistical Yearbook of Chinese Foreign Economy and Trade*, 1990 and 1992.

of exports has occurred in the 1980s, which is characterized by the relative importance of labor-intensive commodities in its exports: "Miscellaneous manufactured goods" increased its share from 15.7% to 40.3% between 1980 and 1992. "Other," which is defined to cover those manufactured products not elsewhere specified, grew from 1.2% to 19% in 1991. These two items are most important in increasing the share of manufacturing in the exports. Other items in "Manufacturing goods" lowered in shares slightly: "Raw material products" from 22.1% to 19.0%, and "Chemicals" from 6.2% to 5.1%. Thus, it is possible to conclude that industrialization of export has centered on light manufactured goods which have become competitive in the world market.

A closer look at the Figure, however, makes clear that there have been contrasting tendencies in the changes in export shares between the periods 1980–85 and 1986–91. In the former period the shares of manufactured products remained around 40%, while in the latter they grew steadily. It was miscellaneous manufactured products that has increased the most in share between 1986 and 1991. It grew 7.1%: from 16.0% to 23.1%, followed by machinery and transportation equipment which increased from 3.6% to 10.0%. These two items accounted for most of the increase in the manufactured good export share: a 13.2 percent increase from 63.8% to 77.0%. The steady share expansion during the period is also notable. This suggests that it was in the mid-1980s, sometime after the adoption of economic reform and open-trade policies in the late 1970s, when China gained comparative advantage in the production of labor-intensive commodities and started to expand their export.

In China's imports primary commodity share dropped from 34.8% down to 16.4%, while manufactured products grew from 65.2% up to 83.6% between 1980 and 1992. Among the imported manufactured goods, "Machinery and Transportation Equipment" grew from 25.6% to 38.8% between 1980 and 1992. "Other" category also grew from 1.6% to 17.5% between 1980 and 1991, the years we can collect data for this category. "Chemical" share has been more or less the same (about 14.5%). "Raw material products" has lost the share from 20.8% to 16.4% between 1980 and 1991, but it increased to 23.9% in 1992. Import shares are characterized by yearly changes on the one hand, and by the overwhelmingly high level of manufactured goods on the other. Another characteristic to be noted is that manufacturing share increases when imports increase more rapidly. When economic growth slows and the total imports increase less rapidly, the manufacturing share of imports tends to decrease. This suggests a relation between increased economic activity and imported manufactured products. The ups and downs of manufactured import share can be traced to increases or decreases in imports of manufactured materials and machinery, or intermediate and capital goods, that are necessary to sustain higher levels of domestic economic activity during expansion. They become excessive in relation to lowered domestic demand in recessions.

1.3. Changes in the Geographical Structure of Trade

Changes in the geographical structure of trade brought by rapid economic growth and faster trade expansion are analyzed in terms of the changing shares of China's trading partners.

1.3.1. Changes in trading partner shares

(A) Total trade (sum of exports and imports)

Table 1, which lists shares of China's major trading partners, reveals that the top four trading partners in 1991 were Hong Kong which accounted for 36.57% of China's export and import trade combined, Japan (14.93%), the USA (10.44%) and the Federal Republic of Germany (3.98%). Amazingly, Taiwan is in fifth place with a 3.12% share. This is a little larger than that of the USSR. Taiwan had no comparable share to the USSR's 2.84% in 1985. [Note: South Korea's share, not listed in the table, was 2.4% in 1991.] Hong Kong has clearly expanded its share rapidly between 1985 and 1991. In 1980, it had a third place share of 14.62%, following the USA (14.62%) and Japan (22.44%) in 1980. In 1985, it was second with 17.24%.

Another fact to note is that the comparatively lower shares tend to grow ever smaller as years go by. This is because the relative size of the top two partners in 1985 and the top one in 1991 got ever larger. The growing share of Hong Kong relative to other countries indicates that it has come to play an increasingly important function as an *entrepôt* of China in recent years. The other characteristic of China's trade is that the combined shares of Hong Kong, the USA and Japan have grown larger than ever. This reflects the fact that China is expanding trade with those countries to which it has easier access, which are more closely connected in terms of economic relations, or which are complementary in terms of economic functions. This would increase the unequal distribution of trading partners in terms of their shares, to be seen in "Lorenz" curve analysis of section 1.3.2.

(B) Exports

Looking at the shares of exports (the figures are not shown in the table), we find that five of the top six countries are the same as those of total trade. Their order differs and Taiwan is an exception. In 1991 the largest export partner was Hong Kong with a 44.73% share. Japan was second with 14.22%. The USA was third at 8.57%. Hong Kong's share, which is at the top of the ranking over the three years, was 24.24% in 1980 and 26.34% in 1985. It has enlarged to some 43% in 1990. Japan's shares, in contrast, were 21%, 22.3% and 14.5% in respective years, and 14.2% in 1991. This shows a declining trend. The USA's shares are more or less the same through the period.

The most impressive point is that the large share of Hong Kong in 1991 has become ever larger. This reflects the fact that Hong Kong is increasing its importance as an export intermediary for China in recent years. Another impressive and interesting fact is that Taiwan's share as an export partner is quite small

TABLE 1. Shares of selected trading partners in China's exports and imports: 1980, 1985 and 1991 (Percent of total exports and imports)

1980		1985		1991	
Japan	22.44	Japan	30.38	Hong Kong	36.57
USA	14.62	Hong Kong	17.24	Japan	14.93
Hong Kong	13.43	USA	10.67	USA	10.44
Germany, Federal	5.44	Germany, Federal	4.51	Germany, Federal	3.98
Australia	3.01	Singapore	3.34	Taiwan	3.12
Romania	2.70	USSR	2.84	USSR	2.88
Singapore	1.80	Brazil	2.03	Singapore	2.27
North Korea	1.66	Australia	1.90	Australia	1.56
USSR	1.33	Romania	1.23	Indonesia	1.39
Thailand	1.24	Poland	0.70	Malaysia	0.98
Malaysia	1.12	North Korea	0.70	Thailand	0.94
Pakistan	0.96	Indonesia	0.66	Macao	0.51
Philippines	0.89	Czechoslovakia	0.65	Pakistan	0.51
Brazil	0.88	Malaysia	0.56	North Korea	0.45
Poland	0.81	Thailand	0.54	Cuba	0.31
Macao	0.68	Macao	0.44	Brazil	0.31
Taiwan	0.00	Taiwan	0.00	Laos	0.01

Source: Calculated from National Statistical Office, *Statistical Data on Chinese Commerce, Foreign Economy and Trade 1952–1988*, China Statistics Publisher, 1989; and *Statistical Yearbook of Chinese Foreign Economy and Trade*, 1990 and 1992.

(0.52% in 1990 and 0.83% in 1991) as compared with its share in the total trade (2.23% in 1990 and 3.12% in 1991), although it has been expanding rapidly in these years. The third fact to note is, once again, that the top three countries have come to take much larger shares, expanding the unequal distribution of trading partners in terms of their export shares. More detailed analysis on this will be found in 1.3.2.

(C) Imports

Looking at the shares of imports, we find that the top six countries are the same as in the case of total trade, but the order differs. In 1991 the largest partner from which China imports was Hong Kong with a 27.38% share, then Japan (15.73%), the USA (12.55%), and Taiwan (5.7%).

In this case, however, Hong Kong's share in 1980 was as low as 3.6% which was in the fifth place after Japan (23.81%), USA (22.85%), Federal Germany (6.35%) and Australia (4.77%). Its share in 1985 grew to 11.4% which was in the third place after Japan (35.58%) and USA (12.05%)—Hong Kong's shares were 21.7% in 1989 and 26.73% in 1990. So, the second characteristic is Hong Kong's rapid growth in the share from a very small one.

Thirdly, Taiwan's importance is prominent in import in contrast to its small share in export. This may be because Taiwan is now one of the major suppliers of manufactured products which are necessary for China's economic development. In the fourth place, Hong Kong's share of 27.38% itself is relatively large

in comparison with the other countries, but when compared with its share in export (44.37%) it is much smaller. This may suggest that Hong Kong is functioning as one of the most important supplier or *entrepôts* through which China's labor-intensive manufactured products are exported to the rest of the world.

1.3.2. "Lorenz" curve analysis of trade structure

To look at the structure of China's exports and imports in terms of share distribution among trading partners, Lorenz curves of exports and imports are depicted in Figures 5 and 6. These are derived from more comprehensive trade data, parts of which were charted in Table 1. Figure 1 suggests that the cumulative distributions of export shares are shifting to the lower right. This confirms a concentration of exports to a few partners in 1985 and to one partner in 1991.

A similar analysis about the cumulative distributions of import shares indicates that the distribution of import shares moved toward more unequal direction between 1980 and 1985, but it more than returned in 1991 to the 1980's distribution. The pattern is a little more equal in 1991 than in 1980 and 1985. Thus, between 1980 and 1985, the shares of importing countries in the middle range decreased. The USA, Germany and Australia shares dropped by 1 to 10 percent points. Japan and Hong Kong shares, however, increased by 12 and 8 percent points.

Between 1985 and 1991 there was a slight reduction in unequal distribution of import shares. Asian countries other than Japan maintained or increased their

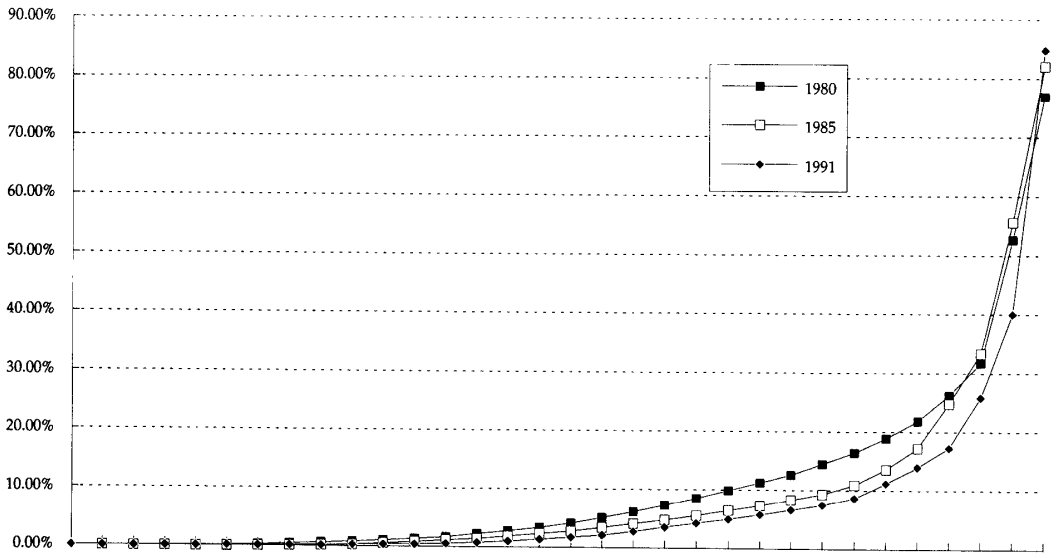

Fig. 1. Cumulated shares of China's Exports by Major Trading Partners

National Statistical Office, *Statistical Data on Chinese Commerce, Foreign Economy and Trade 1952–1988*, China Statistics Publisher, 1989, and *Statistical Yearbook of Chinese Foreign Economy and Trade*, 1990 and 1992.

The figures in the table do not add up to 100 because it omits smaller countries in terms of trade value.

shares, and Japan's share decline halted at 15.7%. The largest share in 1991 was smaller than that of 1985: 27.38% vs. 35.58%. In other words, relative increases in the shares of the middle-ranked countries countered the shift of the curve toward more unequal distribution of shares. This is because more of the import trade is being conducted, not through Hong Kong, but via direct relations between China and a trading partner than in the case of exports. The diversification of countries from which China imports has steadily progressed.

From the preceding analyses, four main points can be made:

First, the increasing ratios of trade to GNP indicates the value of international trade is expanding more rapidly than GNP.

Second, Hong Kong's importance as the trading partner of China has grown in recent years.

Third, new economic relationships are being formed between China and neighboring industrializing countries such as Taiwan.

Fourth, as the second and the third points suggest, geographical diversification of foreign trade has increased.

2. ECONOMIC DEVELOPMENT AND STRUCTURE OF INTERNATIONAL TRADE IN BORDER AREAS

This section is a comparative study of economic development and foreign trade in provinces, autonomous regions and municipalities directly under the control of the central government (hereafter, "provinces"). Special emphasis is given on "border areas," to understand the role of international trade in the economic development of such areas. "Border areas" include provinces which have a national border with a neighboring country: Liaoning, Jilin, Heilongjiang, Inner Mongolia, Gansu, Xinjiang, Tibet, Yunnan, and Guangxi. First, the relative size or importance of border provinces is specified in terms of GNP, population and industry. Second, structural characteristics of border area international trade are discussed in the national setting. Third, the regional structures of international trade in border provinces are reviewed.

2.1. A Comparative View of Border Area Provinces: Provincial GNP, Population and Industrial Production

Looking at the provincial shares of GNP, population and industrial production, three features in provincial share structure are apparent. The first is that, roughly speaking, the larger the shares of population and industry are, the larger the GNP shares are. There are a few exceptions, such as Jiangsu and Shanghai, which have in proportion much larger shares of industry and lower shares of population. Sichuan and Henan have proportionately much higher population shares. The second is that the coastal provinces, where emphasis was put on industrial development in the initial stage of reform have proportionately larger shares of industry. This suggests that they are more advanced in terms of industry. Third,

border provinces are situated in the relatively lower rankings of GNP and industrial shares except for Liaoning.

Liaoning, which has the largest GNP and industrial shares among the border provinces, is in the fifth in terms of national GNP share (5.4%), followed by the 12th Heilongjiang (3.7%), the 16th Guangxi (2.3%), the 19th Yunnan (2.2%), the 21st Jilin (2.1%), the 23rd Xinjiang (1.6%), the 24th Inner Mongolia (1.6%), and the 30th Tibet (0.2%)—we did not include Gansu in our analysis because of its geographical location and data availability. Liaoning is, with its smaller share of population and larger share of industry, a relatively more developed area among the 8 border provinces. Heilongjiang, to a less extent than Liaoning, is also a more developed province. These two had higher *per capita* provincial income in 1991—the former was 2,690 yuan and the latter 2,050 yuan. Both exceed the national average of 1,714 yuan.

In Guangxi and Yunnan, population shares are higher than their respective GNP, while in Jilin, Inner Mongolia, Xinjiang and Tibet both shares are almost the same. Among the four, Yunnan and Jilin have proportionately higher industrial shares than GNP, but Inner Mongolia and Xinjiang have smaller industrial shares. As for *per capita* GNP, five of these six border provinces have smaller *per capita* income than the national average, whereas that of Xinjiang is higher than the average.

The border provinces are, clearly, relatively backward in industrial production and smaller in population shares except for Liaoning and Heilongjiang. Five also have smaller *per capita* income (the exception in this case is Xinjiang).

2.2. International Trade of the Border Areas in a National Context

2.2.1. Export structure

We shall next consider the relative importance of border area foreign trade in terms of the national economy by calculating provincial shares of exports.

It is clear, by calculating the provincial export shares from 1987 to 1991 by size, that the border provinces have relatively smaller export shares, except for Liaoning and Heilongjiang. In 1991 Liaoning and Heilongjiang were second and tenth, while the other border provinces were much lower: Jilin 15th, Guangxi 17th, Yunnan 22nd, Inner Mongolia 24th, Xinjiang 25th and Tibet 30th. These rankings were almost the same as in 1987. Also, border province share sizes are almost the same in 1991 as in 1987 except for Liaoning, which dropped in share by about 1.4 percent, from 11.72% in 1987 to 10.33% in 1991.

What should be noted here, however, is that the share sizes of the top and the bottom provinces have relatively expanded, while those of the upper and middle have contracted between 1987 and 1991. In the top of the rank, Guangdong, which has rapidly increased trade with Hong Kong. Increases in Guangdong's shares suggest that there is a tendency of export concentration. But, at the same time, the relative expansion of share size of smaller provinces indicates that faster growth in international trade has taken place in recent years in non-coastal

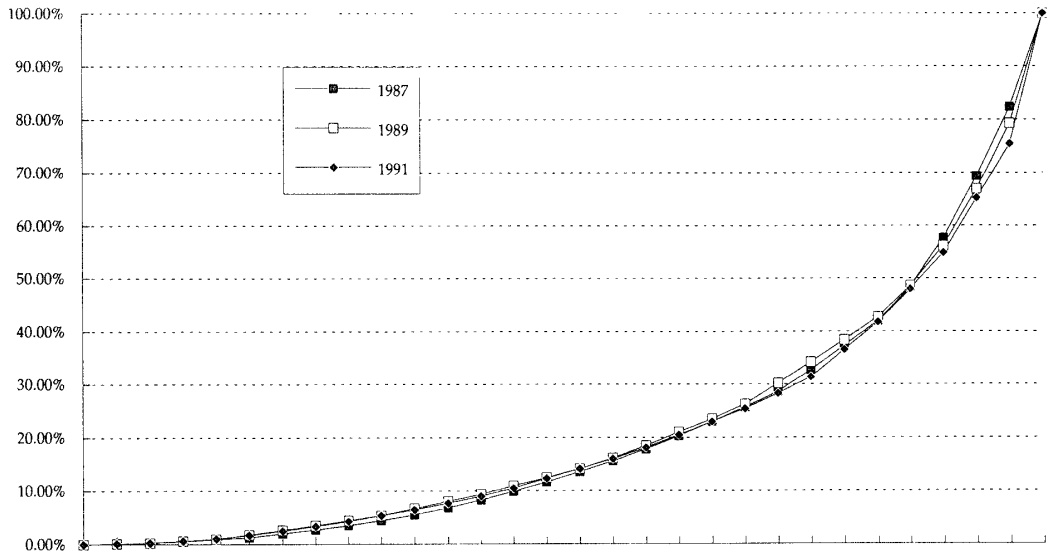

Fig. 2. Cumulative shares of provincial exports
National Statistical Office, *Statistical Data on Chinese Commerce, Foreign Economy and Trade 1952–1988*, China Statistics Publisher, 1989, and *Statistical Yearbook of Chinese Foreign Economy and Trade*, 1990 and 1992.

provinces. The rates of export growth in the smaller provinces are greater than the national average.

This tendency in the shift of share distribution is indicated by the "Lorenz" curves of export shares in 1987 and 1991 depicted in Fig. 2. The curve for 1991 lies slightly above that for 1987 in the lower left, and below 1987 in the upper right. The former shift is insignificant in magnitude. The more significant shift in the latter area indicates a concentration of provincial exports in Guangdong. This may be closely related to the concentration of China's international trade in a particular trading partner, Hong Kong.

2.2.2. Import structure

A similar analysis of imports between 1988 and 1991 reveals a similar tendency for concentration in Guangdong (the figures are not shown here). This may naturally decrease the relative shares of the other provinces, but the relative shares of smaller provinces have grown in spite of share decreases in the middle and upper provinces. Also, faster growth of imports can be observed in recent years in the non-coastal provinces.

The analysis also makes it clear that the import shares of Guangdong in the years 1988–91 are large, and larger than equivalent sizes of export shares. This suggests that Hong Kong's function as an *entrepôt* of China's imports of manufactured products is much larger than in the case of exports, and that this function has been increasing quite rapidly in recent years.

The shares of imports by border provinces generally show larger fluctuation

than in exports. This reflects wider fluctuations in the values of imports. Shares changed by about 1% in Heilongjiang from 2.0% in 1988 to 3.0% in 1991, by a negative 1% in Guangxi from 1.8% to 0.8%, from 1.4% to 1.14% in Yunnan, from 1.18% to 1.32% in Jilin, from 0.7% to 0.47% in Xinjiang, from 0.57% to 0.89% in Inner Mongolia, and from 0.04% to 0.07% in Tibet. Although the percent changes may be small, the rates of change are quite large in proportion.

In Tibet the import share of 0.07% in 1991 can be contrasted with the export share of 0.02% in the same year. Imports tend to be much larger than exports in this autonomous region. This may suggest that the central Chinese government is active in supplementing the provincial trade deficits of Tibet.

The "Lorenz" curves for imports (not depicted here) confirm this tendency for the shifts of import shares from 1988 to 1991. When we look at a particular province, more frequent and larger changes in import share sizes are observed. But, the general patterns of the Lorenz curves for the whole provinces are, except for 1989, more stable than exports. This means that there exist the same pattern of shifts in the import share distribution as exports. The 1991 curve lies slightly above that for 1988 in the lower left, and below 1988 in the upper right. The shift of the curve on the left side is, however, insignificant in magnitudes compared with the right side. The right side indicates a concentration of provincial imports in Guangdong. So, we can conclude that the changes in import shares are related to the concentration of China's international trade in a particular province which is closely linked to a neighboring trade partner: Hong Kong.

The exceptional shift in 1989 is due to a lower share of Guangdong. This decrease may be the result of general import growth slowdown due to internal political incidents and the world's reaction.

To summarize, the border provinces are relatively small in the national economy in terms of international trade, GNP size and industrial production. This is related to the relative backwardness of provincial *per capita* income, and can be seen from the share sizes of these provinces in national exports and imports. In 7 out of 8 border provinces import shares are less than 2.5%, and export shares are less than 3.0%. The exception is Liaoning, where both export and import shares are in much higher positions in the ranking. This province is included as a border area because it has a national border with North Korea. It should not be forgotten, however, that it is also one of the coastal provinces for which various economic development priorities have been provided since the late 1970s. Liaoning is one of the more advanced and richer provinces with outward-oriented characteristics.

2.2.3. A comparison of export and GNP shares

The characteristics of provincial trade with foreign countries are analyzed in terms of export share, GNP share, ratio of export to provincial GNP and the *per capita* GNP index. As Table 2 indicated, the GNP share of each province to the total GNP of China is higher in relation to export shares except for Liaoning.

TABLE 2. Comparisons of provincial exports and GNP share, per capita GNP in 1991

	Provincial Export Share (%)	Provincial GNP Share (%)	Share of Export to Provincial GNP (%)	(Liaoning = 10) per capita GNP Index	(Yuan) pc GNP
Liaoning	9.43	5.4	17.6	10.0	2689.6
Heilongjiang	2.25	3.69	10.8	7.6	2047.2
Guangxi	1.37	2.28	10.1	3.9	1047.7
Yunnan	0.73	2.18	6.4	4.3	1144.5
Jilin	1.68	2.14	12.8	6.3	1690.1
Inner Mongolia	0.68	1.62	7.0	5.5	1469.0
Xinjiang	0.59	1.57	6.6	7.5	2004.6
Tibet	0.02	0.15	2.9	5.0	1350.9

Source: Calculated from *China Statistical Yearbook, 1992.*

The figures suggest that international trade has played, until recent years, a relatively less important role in the process of economic development of the border provinces than in other provinces.

The same is the case with the ratios of provincial exports to provincial GNP. Thus, the ratios of all the border provinces are smaller than the national average. The national average of 19.5% contrasts with 17.6% in Liaoning, 10.1% in Heilongjiang, 12.8% in Jilin, 10% in Guangxi, 6.4% in Yunnan, 7% in Inner Mongolia, 6.6% in Xinjiang, and 2.9% in Tibet. Here, Liaoning's ratio is also smaller than the national average in spite of its status as one of the coastal provinces receiving preferential treatment under the policies after 1979.

What we should learn from the above facts is not that international trade is essentially unimportant for these provinces, but that less emphasis has been put on their external economic relations by the existing development policies. Because of such policies they could not fully utilize external sources and tap potential comparative advantage in making efforts to achieve economic development and attain higher *per capita* income. After accelerated policy changes in the latter 1980s, however, international trade in the border provinces started to develop more rapidly. This will be observed in the next section 2.3.

2.3. The Regional Structure of International Trade in Border Areas

In this section I show that diversification of international trade has much progressed in the border provinces since the late 1980s, by the analysis of the nation's overall foreign trade in each border area province.

2.3.1. Exports to neighboring countries

Figure 3 shows the shares of China's neighboring trade partners in 1980 and from 1985 to 1991. Share was calculated by adding up exports from China to the neighboring countries first to get a total value of exports to these countries, and

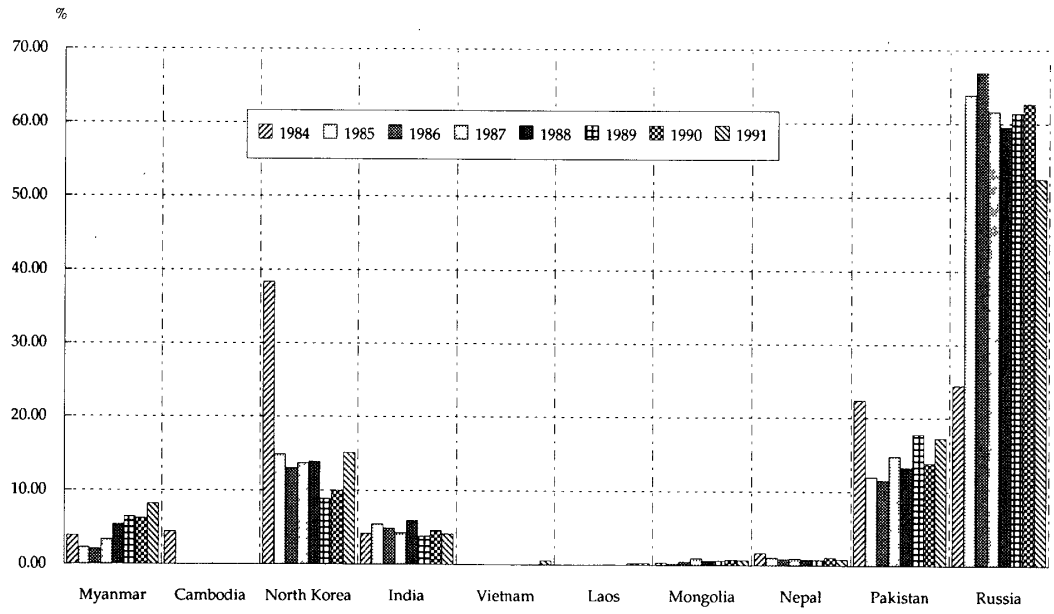

Fig. 3. Trade share of neighboring countries
Charted from National Statistical Office, *Statistical Data on Chinese Commerce, Foreign Economy and Trade 1952–1988*, China Statistics Publisher, 1989, and *Statistical Yearbook of Chinese Foreign Economy and Trade*, 1990 and 1992.

then by dividing the export value to each of them by the total.

The figure shows that the former USSR has maintained top in the share ranking since 1985 when the share was near 65%, having jumped from about 25% in 1980. This share suddenly dropped to about 53% in 1991. Shares of North Korea and Pakistan were much higher in 1980 than in 1985–91. They increased by about 3–5 percent over the previous year in 1991. Myanmar also showed a similar tendency, expanding share from near 2% to some 8% in 1991. India has maintained a 5% share during the 1980s.

The former USSR's large shares can be interpreted as a natural outcome. Generally, a country tends to have closer economic relations with an economically influential country in a neighboring region. Thus, Russia can and does play a role of an inland *entrepôt* in exports and imports of China's border provinces. It does so to a lesser extent than Hong Kong in the coastal areas.

2.3.2. Export and import structure of the border provinces

Among neighbor trading partners of China, we see that the former USSR has the largest share. The relative importance of these partners, however, may be different by provinces. Table 3 displays the shares of major trading partners, both neighboring and other countries. From this table we can identify the following four patterns in the geographical structure of provincial foreign trade.

(A) Heilongjiang and Inner Mongolia

For both provinces, the most prominent characteristic is that the largest trading

TABLE 3. Major trading partner shares in eight provinces

Export Share (%)				Import Share (%)			
Inner Mongolia	1989	1990	1991	Inner Mongolia	1989	1990	1991
Former USSR	31.96	30.35	33.81	Former USSR	53.89	60.56	52.57
Japan	22.92	18.30	12.84	Japan	14.34	5.79	5.83
Hong Kong	14.65	16.12	19.61	Hong Kong	9.92	5.68	9.55
UK	6.60	7.61	3.43	Mongolia	5.84	5.46	5.53
Italy	4.43	3.27	5.84	Taiwan	2.66	1.90	
USA	4.15	3.92	2.53	Australia	2.59		
Switzerland	3.71	1.20	1.84	USA	2.15	9.70	15.76
Germany, Federal	1.86	1.62	1.71	New Zealand	1.80		
Mongolia	1.65	2.88	3.35	Singapore	1.29	3.51	
South Korea			1.82	Macao			2.32
Total	91.93	85.27	86.78	Total	94.48	92.59	91.56
Liaoning	1989	1990	1991	Liaoning	1989	1990	1991
Japan	36.05	40.27	37.68	Japan		55.58	52.36
USA	16.85	18.79	17.22	Hong Kong		27.99	22.63
Hong Kong	5.80	8.41	9.22	USA		10.55	8.07
Singapore		8.91	8.02	Germany		5.88	4.17
North Korea			3.49	Former USSR			3.36
Former USSR			3.31	Sweden			3.47
South Korea			3.14	Austria			2.06
Germany			3.02	Australia			1.95
				Singapore			1.93
Total	58.70	76.37	85.09	Total		100.00	100.00
Jilin	1989	1990	1991	Jilin	1989	1990	1991
Japan	30.93	24.03	21.62	Germany		18.62	29.44
Former USSR	23.52	21.40	11.31	Former USSR		15.82	20.05
Hong Kong	21.36	28.63	37.65	North Korea		6.56	14.89
North Korea	5.14	2.46	5.25	Hong Kong		14.24	12.77
USA	3.22	2.63	2.26	Japan		15.77	8.51
Singapore	3.05	2.80	4.80	USA		7.01	6.22
Germany, Democratic	1.30		1.63	India		3.36	
Thailand	1.07			France		2.50	
Total	89.59	81.95	84.52	Total		83.89	91.89

TABLE 3. (Continued)

Export Share (%)				Import Share (%)			
Heilongjiang	1989	1990	1991	Heilongjiang	1989	1990	1991
Former USSR	35.57	33.03	33.51	Former USSR	38.22	69.61	66.65
Hong Kong	16.41	16.11	15.00	Japan	13.92	10.12	5.25
Japan	15.58	15.84	14.92	Hong Kong	7.41	8.39	8.68
North Korea	5.42	7.02	4.67	USA			6.07
Indonesia			7.45	Germany			4.05
South Korea			4.38	South Korea			1.32
Malaysia			3.99	Switzerland			1.04
USA			2.50	Singapore			1.00
Singapore			1.64	North Korea			0.93
Total	72.99	72.01	88.05	Total	59.55	88.12	94.98
Guangxi	1989	1990	1991	Guangxi	1989	1990	1991
Hong Kong/Macao	51.76	52.42	54.65	Hong Kong	36.40	47.04	44.50
Japan	11.16	7.59	8.30	Former USSR	9.63	7.05	12.00
USA	10.29	8.39	7.74	Japan	7.83		12.67
Germany, Federal	4.05	3.34	3.54	USA	6.56	6.34	
UK	2.32	1.85	1.78	Germany, Federal	5.89		3.29
France	2.11	1.59	2.44	Brasil	5.40	6.57	3.52
Netherland	2.06	2.64	2.56	Singapore	4.62		6.99
Checoslovakia	1.78			UK	2.06		
Former USSR	1.76			Italy	1.82		
Singapore	1.48	1.60	1.94	Taiwan	1.82		
Total	88.77	79.41	82.94	Total	82.03	67.00	82.97
Yunnan	1989	1990	1991	Yunnan	1989	1990	1991
Myanmar	32.88	25.38	30.32	Myanmar	35.89	38.64	35.43
Hong Kong/Macao	14.77	17.12	24.33	Hong Kong	14.43	15.59	10.36
Japan	12.54	12.17	15.60	USA	11.49	11.47	14.25
USA	3.76	3.93	5.10	UK	11.00	3.27	10.01
Former USSR	3.04	3.40	2.27	Japan	8.27	5.90	9.11
Poland	1.91			Germany		6.55	11.42
Singapore		1.66	2.48	France		3.61	1.76
Sri Lanka			1.86	Finland		4.15	1.65
Total	68.90	63.66	81.96	Total	81.08	89.18	93.99

TABLE 3. (Continued)

Export Share (%)				Import Share (%)			
Tibet	1989	1990	1992	Tibet	1989	1990	1991
Nepal	43.15		51.14	Japan	61.04		53.49
Japan	26.91		13.42	Nepal	28.54		7.93
Singapore			14.82	Sweden			12.10
Italy			7.31	USA			10.89
South Korea			5.39	Australia			6.59
Hong Kong			3.52	Taiwan			4.57
Total	70.06		95.60	Total	89.58		95.56
Xinjiang	1989	1990	1991	Xinjiang	1989	1990	1991
Japan	37.07	31.57	29.77	Former USSR	40.97	63.19	53.98
Former USSR	18.94	21.68	16.09	Japan	21.20	11.70	10.34
Hong Kong	16.35	17.17	20.56	Hong Kong	10.03	19.20	20.58
Germany, Federal	3.61	3.97	3.24	Italy	8.74		
Checoslovakia	3.34	3.35	0.00	Germany, Federal	8.32		
Romania	3.10		4.73	USA		2.05	12.26
USA	2.92	3.91					
South Korea			3.33				
Total	86.32	81.66	77.71	Total	89.26	96.14	97.16

* In 1989 Federal Republic of Germany (Germany, Federal) and German Democratic Republic (Germany, Democratic) were distinguished. But, in 1990 and 1991 they were combined into "Germany."

** "Total" in the table is the total share of the trading partners listed.

Source:

Calculated from *Statistical Yearbook of Chinese Foreign Economy and Trade, 1989, 1990/91, 1992.*

partner is the former USSR. In Inner Mongolia Russia accounts for about one third of exports and more than half of the imports from 1989 through 1991. In Heilongjiang Russian shares are about one third of exports and 38–70% of imports in the same years. This is because of the long common border. In addition, political and historical closeness, except in years of conflict, contributed to border trade.

Another point to be noted here is that Japan's shares in Inner Mongolia, which were second largest both in exports and imports in 1989, contracted from 22.9% to 12.8% in exports and from 14.3% to 5.8% in imports between 1989 and 1991. In contrast, Hong Kong's shares, being in third place in 1989, expanded to second largest, from 14.7% to 19.6%, in exports. Hong Kong's import share has remained almost the same. This grew to third place because of the sharp

decline of Japanese share. The import shares of the USA have dramatically expanded in contrast to declining shares of exports.

In addition, both provinces increased the number of trading partners, resulting in the diversification of geographical trade structure.

(B) Xinjiang

In this province Russian shares are also larger than those of other countries. In 1989, 1990 and 1991 Russian shares were between 16% and 19% in provincial exports. While Russia was the largest trading partner for Xinjiang's imports, accounting for 40% to 63% in the years between 1989 and 1991, in exports it was second largest after Japan. The reason for Japan's largest share in exports may be that the province sells Japan large quantities of raw cotton, cotton products, wool and wool products. These are the main exportables of the province.

Another fact to be noted here is that the subtotals of the export shares by the major trading partners listed in the table decreased from 85.3% in 1989 to 77.7% in 1991. This may imply a diversification in export structure share distribution.

Besides, rapid increase of Hong Kong's shares in exports and imports of Xinjiang illustrates that Hong Kong's importance as an *entrepôt* to this province is growing. This would suggest that, instead of geographical, historical, cultural or other non-economic factors as main determinants of international competitiveness of this province, the economic factors have come to play more important roles in determining Xinjiang's international comparative advantage.

Thus, Xinjiang's trade share changes suggest the diversification of trade is advancing in this province.

(C) Jilin and Liaoning

In these provinces, too, the increasing importance of economic factors as determinants of international competitiveness and increasing diversification of trading partners can be observed. The latter is illustrated in the shifts of export structure in these provinces between 1989 and 1991. In Jilin's exports Hong Kong has expanded its share from 21.3% (the third) to 37.7% (the top). Shares of Japan and the former USSR have decreased from 31% (the top) to 21.6% (the second) and from 23.5% (the second) to 11.33% (the third), respectively. And in Liaoning the share increase of Hong Kong is more prominent between 1989 and 1991 than for other partners.

Imports diversification is progressing in Liaoning. This is illustrated by emerging partners, such as Russia and Sweden. This may reflect the fact that this province is in the coastal region where policies for trade promotion are pursued more seriously than in other border provinces.

In Jilin's imports it is Germany, Russia and North Korea that have expanded in share. This may be because of the economic and geographical situation of Jilin. It has special ties with North Korea through Chinese people of Korean origin within the province near the North Korean border. It is also a landlocked area surrounded by North Korea, Russia and the two Chinese provinces of Heilongjiang and Liaoning.

(D) Guangxi and Yunnan

In these provinces of the southern part of China, the neighboring countries have the largest shares, indicating that there still is concentration of trade in particular countries. In Guangxi Hong Kong/Macao accounts for more than 50% of exports, and Hong Kong for about 45% of imports. In Yunnan, the export shares of Myanmar and Hong Kong/Macao in 1991 amounted to 30% and 25%, respectively, and their respective import shares were 35% and 10%. Other countries, such as Japan and the USA, are steadily expanding both export and import.

We can conclude that there is the tendency of trade diversification in most of the border provinces. It is true that we can see trade share concentration in some cases by geographical, historical or other factors. But, at the same time, we can observe that more diversified trade structure is emerging in border provinces by new development strategies through realizing potential comparative advantages.

3. A NEW STAGE OF OPEN POLICY AND GROWING BORDER TRADE

I will now review growth of border trade that was stimulated by new economic strategies in the border areas. This will help to thoroughly understand the roles that newly emerging border trade can play in promoting local economic development in the border areas. I discuss the characteristics of the new strategies intended to promote economic development in the middle, western and northeastern parts of the country. Then, growth of border trade and local economic development are analyzed. Finally, I assess border trade to identify its real role and limitation, and point out the problems to be solved.

3.1. Adoption of a New Development Strategy for Non-coastal Regions

As previously mentioned, China's economic reform and open-trade policies adopted in 1979 were begun in the coastal areas. In the latter half of the 1980s they were extended to the northeastern part of the country. In the late 1980s they reached the interior border areas where in recent years positive liberalization of economic activities came to be pursued and new external relations of trade, investment and economic cooperation were formed. Such extension of policies were possible because they were thought to have successfully attained their purposes in the coastal regions during the 1980s.

Thus, new waves of Chinese economic development turned westward. First, investment priorities were extended to the western part of China. Second, economic vitalization began in the middle and western parts through liberalization and promotion of economic exchanges with foreign countries. Third, the facilitated exchanges stimulated direct foreign investment into border provinces in the western[6] as well as the northeastern parts of the country.[7] Various reform measures were also pursued in policy implementation systems and institution-building of the local governments in the border areas. In addition, massive efforts

were made in construction of infrastructure such as transportation, telecommunications and economic development zones.

The new strategy in the border areas aimed at promotion of industrialization and improvement of income levels by providing wider economic opportunities through extended relations with foreign countries. In addition, tax revenues of local governments were expected to increase through increased local economic activities and trade and through expanded foreign direct investment.[8)]

In addition to these changes in policies and strategies, more favorable international economic and political conditions also emerged, making it possible for the border areas to have economic and trade relations with those countries that had no diplomatic ties, or that had stopped them. Thus, new economic and trade relations with Taiwan and Korea were formed; those with Russia, Vietnam or Laos resurged or reopened. New ties with new countries such as Kazakhstan and Tadzhikistan developed. All of these provided the border areas with a favorable international setting that led to increases in diversified international trade.

The number of newly approved foreign direct investment (FDI) on the contract basis in China amounted to 40,219 between January and November, 1992, which is 3.6 times more than in the same period in the previous year. The amount of agreement (contract) of FDI in the same period was $45.89 billion, which is 4.8 times larger than in the same period in the previous year. In terms of FDI on the materialized (realized) basis, the value in the same period was $8.34 billion, which is 2.5 times larger than in the same period in the previous year. It was estimated that the amount of contracted FDI would reach $58 billion and that of realized FDI $16 billion in 1993. In comparison, they would be 200% larger and 40% larger, respectively, than in 1992.[9)] This can be interpreted as a reflection of the new economic policies adopted, expanded economic activities and rising domestic income—FDI is very responsive to such changes. Utilization of FDI as a driving force of economic development is an important objective of the new economic strategy. It seems to be being implemented very successfully.

[6] See "Opening of border area, seen as successful (written in Chinese)," *Renmin Ri Bao, Overseas Edition*, February 15, 1993.

[7] See Tamio Shimakura, "Introduction—emergence of Northeast Asian economic region (written in Japanese)," in *idem*, ed., Emergence of Northeast Asian Economic Region, IDE, 1992, Chapter I, and Hajime Kitamura, "Public Economic Cooperation and Private Foreign Investment toward Northeast Asia (written in Japanese)," in *Ibidem,* Chapter 10.

[8] As for inequality in income levels and imbalances of trade, see Sumio Kuribayashi, "Regional Economic Policies of China at a Turning Point (written in Japanese)," in S. Kuribayashi, ed., *Chûgoku no Chiiki Keizai* (*Regional Economy in China*): *enkai kara nairiku he* (*from the coastal to the inland regions*) (in Japanese), JETRO, 1993, Part I, Chapter I; *idem*, "Problems of China's Regional Development Strategy (in Japanese)," in Nobuo Maruyama, ed., *Economic Development in the Yangze River Region*, IDE, 1993, Chapter 3; and Masayuki Miyasaka, "Effects of Regional Opening Policies (in Japanese)," in S. Kuribayashi, ed., *ibid*, Part II, Chapter II.

[9] See JETRO, *Tsûshô Kôhô*, January 18, 1993, pp. 10–13, *idem*, *Tsûshô Kôhô*, January 13, 1993, p. 3, and *idem*, *Kaigai Shijô Hakusho*, *Bôeki Hen*, 1992, pp. 246–250.

3.2. Expansion of Border Trade and Regional Economic Development

3.2.1. What is "border trade"?

A prominent fact in the regional economic development in the border areas is that local international trade of the border provinces with the neighboring countries is rapidly increasing in recent years. Here, local international trade in these areas with adjacent regions in the neighboring countries that have a common national border is generally defined as "border trade." "Border trade" in this sense is distinguished from international trade of the border provinces in the nation-to-nation level and the province-to-nation level.

More specifically, "border trade" consists of two types: public or publicly admitted trade and the private trade in retail terms.[10] The first is defined as exports and imports conducted by local governments of different levels such as provincial, civic and municipal, and by private corporations approved by the local government, with local counterparts in those foreign countries that have a common national border. This type of trade has the following four features. First, it is under the control of local, not central, government. Second, it is conducted on barter terms where the sales and purchases are determined without foreign exchange. It is free from exchange rate fluctuations and exchange rationing by the central government. Third, the trading entities in China are those that are established, or approved, by the provincial, civic or municipal government in those provinces that have an inland border with a neighboring country. Finally, the direct counterparts are those entities in the neighboring country. So, it is different from "local trade" in that the latter is conducted by a trading corporation which belongs to a local government of any area with any foreign country regardless of its location—in some cases the trading partner may be in the neighboring area, and in others the trading partner may be in a remote part of the world.

The second type of border trade includes exports and imports conducted by private persons living in a border area and gathered into a special zone designated by the government concerned as the "market for private border trade by local residents" on both sides of the national border. This type of border trade has historically existed in the areas where the same ethnic groups of peoples are living across the border and form one local economic unit or region.[11]

The first type of border trade can be called "small-scale border trade" and the second type "border trade for local residents through a designated market." The former can be more influenced by the local governments, while the latter is more

[10] As for the definitions of border trade, see "Expanding border trade between China and Vietnam, Guangxi Autonomous Region, part II (in Japanese)," in JETRO, *Tsûshô Kôhô*, April 5, 1993. In addition, the third type can be separated in between the two mentioned above: that is, exports and imports between residents of both countries living in border areas that are conducted in a free market opened at fixed periods. Also see Han Hong-Yee, "The Present Situation of China's Border Trade and its Roles," *Ajia Keizai*, XXXIV-7, July 1993, pp. 73–74.

[11] "Positive effects on minority ethnic group regions by border trade (in Chinese)," *Beijing Weekly*, No. 12, 1993.

by social factors which are left to work through market mechanism in local areas.

3.2.2. Changes in border trade in value terms

Adoption of new development strategies extended to the interior regions has expanded the volume of border trade more rapidly than before in some border provinces. A chain of economic development is being expected to arise. Increased border trade stimulated by new policies would vitalize local economic activities. Local economic growth would in turn accelerate local foreign trade. This would again promote local economic activities. This expectation seems to have actually started in some provinces. This is illustrated by the following quantitative analysis.

We can identify three characteristics by calculating the yearly changes in border trade of eight provinces between 1988 and 1991. First, there are much differences among the provinces in the value of border trade. The figures in 1991 indicated that the position of Heilongjiang is quite large, with the value of $7,425 million which has no comparable figure in other provinces. The second largest value was $2,574 million of Inner Mongolia, followed by Jilin's $2,059 million and Yunnan's $2,006 million. The other provinces have much less: $944 million in Xinjiang, $126 million in Liaoning, $73.5 million in Guangxi, and $68 million in Tibet. In one sense, the differences in the values of border trade are quite understandable when we think of the differences in economic sizes of the provinces. But the case of Liaoning needs to be explained in a different way, because its foreign trade in the national level is much larger than those in other border provinces. We will return to this later in Section 3.2.3.

The second characteristic is differences in the growth rates of border trade among the provinces. The growth rates are quite rapid in Heilongjiang (about 43% in 1991), Inner Mongolia (39%), Liaoning (35%) and Xinjiang (32%). In Jilin border trade expanded by about 12% in 1991, while in Yunnan and Tibet it has remained more or less the same level or decreased slightly in the three years.

Third, in some provinces which have border trade relations with more than two countries most of it tends to be with one major partner. Russia is much larger than the other partner(s) in Inner Mongolia and Xinjiang, North Korea is significant in Jilin, and Myanmar in Yunnan. This may be because of propinquity, the economic size of the partners, historical and other factors. In the case of border trade, cultural or ethnic factors may be more important than others, considering that peoples of the same ethnicity live across the border in China and in a neighboring country. The importance of this factor is closely related with one of the two types of border trade considered in Section 3.2.1.

3.2.3. The relative importance of border trade

The relative importance of border trade can be estimated in relation to the national economy as a whole and to local economies of border provinces. The ratio of border trade to national trade in value terms was as low as 0.57% in

1988. In the following years, it rose to 0.9% in 1989, 1.02% in 1990 and 1.13% in 1991. The importance of border trade in terms of its ratio to national trade is still very limited. From the relative smallness of border trade in China we apt to judge that the *roles* which border trade can play in the national economy are limited. It may be true that border trade could contribute very little to promote economic development in the whole nation. But the real function that it ought to perform should be observed in the context of local economic activities. How does it contribute to enhancing local economic conditions, and to promote economic exchange between same ethnic groups living on different sides of national borders? What roles does it play in improving economic opportunities for local residents who may not benefit from economic development usually attained in major economic centers of the nation?

As a first step to assess the real importance of border trade, Fig. 4 shows the ratio of border trade to total international trade in each border province. Contrary to the ratio of border trade to China's international trade in the whole, the ratio of border trade to provincial international trade amounts to a certain level. Thus, the ratios in 1991 were 37% in Heilongjiang, 43% in Inner Mongolia, 27% in Yunnan, 24% in Tibet, 20% in Xinjiang, and 16% in Jilin. While decreasing in Yunnan and Tibet and remaining more or less the same in Yunnan, they are rapidly increasing in the other three provinces. These ratios in Figure 4 suggest that such trade is playing a fairly important role in six provinces. Its importance is greatly increasing in Heilongjiang and Inner Mongolia where opportunities seem to be opening for increasing border trade with Russia. It is also clear that in Liaoning and Guangxi, where the volumes of national trade was far greater than the other border provinces because these two provinces are located in the

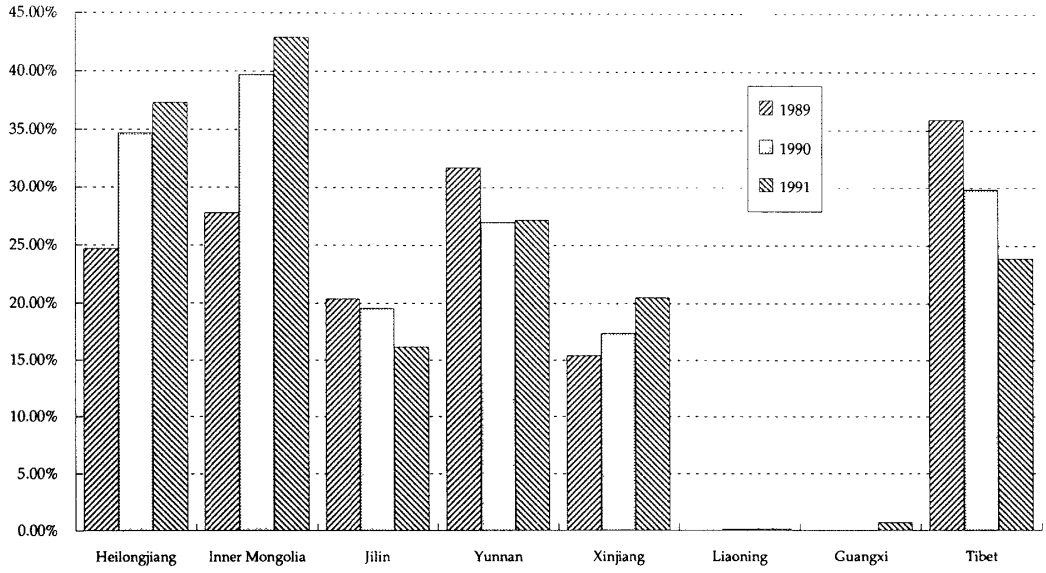

Fig. 4. Ratios of border to provincial trade
Charted from *Statistical Yearbook of Chinese Foreign Economy and Trade*, 1989, 1990/91, 1992.

coastal region, the values themselves were small and, accordingly, the ratios were 0.19% and 0.73% in 1991, respectively. This suggests that different conclusions should be derived for the former and latter groups of border provinces.

3.2.4. The growth rates of border trade

I will now compare the growth rates of border trade in the eight provinces. The growth rates of border trade in 1989, 1990 and 1991 are compared with the growth rates of the national trade in the same years. In the first place, it is clear that the former rates are larger than the latter. We may be able to conclude that its growth potential seems to be great and its growth rates, as a result, will continue to be larger than the national trade.[12)]

The growth rates of border trade in each province, shown in Fig. 5, indicate that in some provinces border trade is expanding in recent years, while in others it is unchanged or contracting. In Heilongjiang, Inner Mongolia, Xinjiang and Liaoning it is growing rapidly. In Yunnan it has decreased somewhat. In Tibet it is shrinking. The differences of these growth rates may be due to the differences of economic and/or political conditions of the major trading partners. While conditions are more unstable in recent years, the conditions in Russia are more

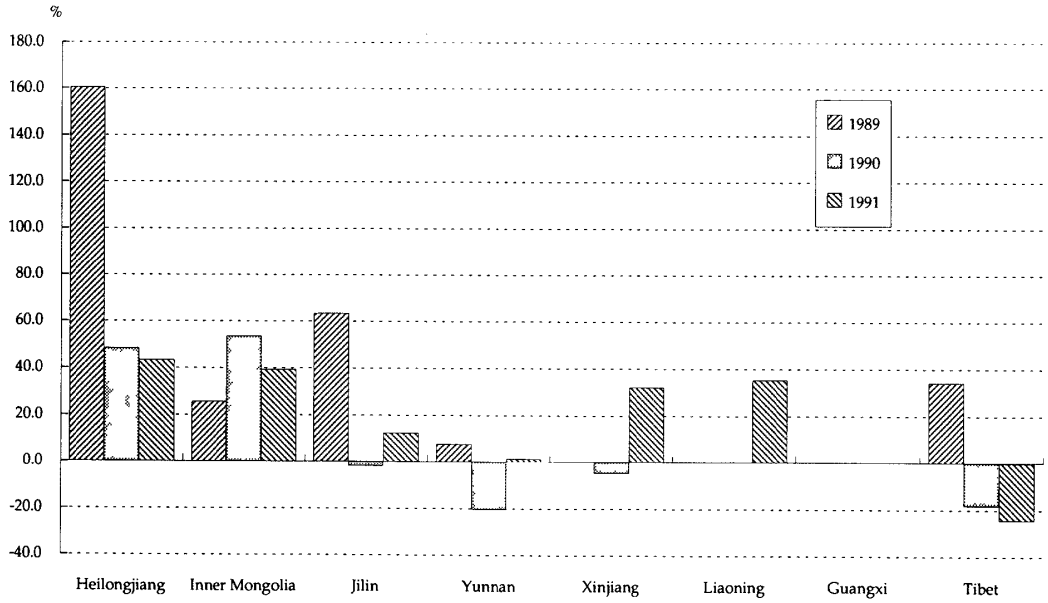

Fig. 5. Growth rates of border trade by provinces
Charted from *Statistical Yearbook of Chinese Foreign Economy and Trade*, 1989, 1990/91, 1992.

[12] In fact, various data show that border trade in 1992 is expanding more rapidly than in the previous year. See, for example, note 6) above; "Rising tide of border trade," *Renmin Ri Bao, Overseas Edition*, March 11, 1993; and Seiichi Nakajima, "Some Characteristics of Chinese External Economic Activities in 1992 (in Japanese)," *Kaigai Jijô*, Takushoku University Research Institute of Overseas Affairs, April 1993. As for recent legal development about border trade by the Government of China, see, for example, "The State to Encourage border Trade," *China Economic News*, No. 10, March 15, 1993.

stable than in the other two trading partners. In the case of Xinjiang, new economic opportunities for exchange with Kazakhstan may have contributed to expansion. In Jilin, whose major partner in border trade is North Korea, steady growth could not be attained in the same years. This is also the case with Yunnan whose major partner is Myanmar.

3.3. Assessment of Border Trade

The above analysis on border trade in China enables the following points to be made. First, the *prima facie* importance of border trade to China's economic development seems to be very small and limited. The second point is that it does make a certain contribution to local economic growth when evaluated from the viewpoint of its ratio to local trade and, accordingly, to local economy. In Heilongjiang, Inner Mongolia, and Xinjiang, new opportunities for local economic development are being opened through local border trade other than existing conventional processes. The third point is that the growth potential of border trade in each province is dependent on economic, political and other conditions in the neighboring countries as well as domestic or provincial situations. In Jilin, for example, one of the major factors that influence its border trade is the North Korean economic situation on which provincial border trade is very dependent. The possibilities that Jilin can obtain from border trade with the Russian Far East is very important. In Tibet, while the ratio of border trade to total provincial trade is relatively high, border trade seems to have limited importance because the province is located in a remote, mountainous region where natural conditions are quite severe and many economic activities are under various constraints. What is necessary is to identify an appropriate, *bona fide* development strategy for this province. After this the policy measures to be taken should be carefully discussed in regard to border trade and international trade in general.

CONCLUSION

In this paper, we have discovered that there were wide fluctuations in China's economy and trade. They occurred due to the older type of imbalances between overall demand and supply being influenced by an insufficient market system and the remaining socialist economy on the one hand, and closed or self-centered regionalism on the other. This macro-economic imbalance mechanism seems to be an important cause of the unstable performance of the Chinese economy in the 1980s and the early 1990s. In addition, external borrowing that makes it possible to lessen current external imbalances would aggravate the situation in the long-run by enlarging fixed capital formation in the boom period through expanded imports.

We then discussed that there are effective ways to correct such a situation. First, remove remaining myopic behaviors of producers and the remaining so-

cialistic factors that would lead people in the wrong directions. Second, introduce a more complete market system that can rationalize the economic activities of producers. Third, stop unnecessary reliance on external sources for domestic capital formation.

A close look at structural changes in China's trade revealed that China gained comparative advantage in the production of labor-intensive commodities and started to expand their export in the mid-1980s. Also, it was made clear that there was a relation between increased economic activity and imported manufactured products. Imports of manufactured materials and machinery were necessary to sustain higher levels of domestic economic activity during expansion. But they become excessive in relation to lowered domestic demand in recessions.

China's commodity structure of trade, especially manufactured product export, is also changing dramatically in the process of geographical diversification of foreign trade. We observed, in the geographical structure of trade, that China's foreign trade has expanded more rapidly with Hong Kong as the largest trade partner in these fifteen years. Also, China's coastal provinces have grown larger than other areas in terms of trade share in the same period. A more detailed look at international trade of China, however, makes it clear that the country is progressing the diversification of trade partners. New economic relationships are being formed between China and neighboring industrializing countries such as Taiwan.

There was a concentration of provincial exports in Guangdong, which is related with the concentration of China's international trade in Hong Kong. Partly because of this, the border provinces are relatively small in the national economy in terms of trade share. It seems to me that this does not necessarily imply that international trade is essentially unimportant for these provinces. Rather, the fact seems to be that less emphasis has been put on their external economic relations by the existing development policies. In fact, after accelerated policy changes in the latter 1980s international trade in the border provinces started to develop more rapidly. We can observe that more diversified trade structure is emerging in border provinces by new development strategies through realizing potential comparative advantage.

Adoption of new development strategies extended to the interior regions has expanded the volume of border trade more rapidly than before in some border provinces. Border trade in the eight provinces are growing much faster than the national trade. But, because the share of border trade to the national trade is very small, the *prima facie* importance of border trade to China's economic development seems to be very small and limited. When viewed from its ratio to local trade and local economy, however, border trade is sure to contribute to economic growth in local provinces.

It is very important to note that the growth potential of border trade in each province is dependent on economic, political and other conditions in the neighboring countries as well as domestic or provincial situations. But there are

important problems to be solved or barriers to be overcome for local border trade to function as a lever for smoother and faster economic development in border area. First, small and medium-scale production and commercial activities should be promoted because they constitute the basis for increasing border trade and economic prosperity in local border provinces. Second, measures should be taken to foster potential industrialists who can perform competitive production and commercial activities in the world market, resulting in the promotion of local border trade and economic growth. What is imperative is to identify an appropriate development strategy and policy measures in each province that could accelerate growth of local economic activity and border trade.