

TERRITORIAL IMBALANCES IN THE CHINESE ECONOMIC BOOM

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ABSTRACT

In 2001, with China's accession to the World Trade Organisation (WTO), the economic policy of the People's Republic of China underwent a major transformation, a shift that had begun in 1984 when the U.S. president Ronald Reagan visited China and the country embarked on a number of reforms designed to open up trade and embrace market economy. This triggered the largest economic and industrial growth seen in recent years and turned China into one of the main driving forces in international trade and in global economic growth. Over the last 30 years, Chinese production and industrial processes have been redirected towards international exports, while facilitating the arrival of international capital flows to China, although dependent on most occasions on the transfer of technology by international investors. The direction of the investment is prearranged, at both spatial and sectoral level, based on the country's five-year plans (Fernández Lomen, 2011) and on government investments aimed at increasing urban competitiveness and generating the spatial conditions needed to attract international investors, as there is no getting around the fact that political decisions are predominant in China's socioeconomic and cultural life.

I. MAIN CONSEQUENCES OF THE OPENING UP OF THE CHINESE ECONOMY

The economic changes that have taken place in China as a result of economic openness have been so far-reaching that the country has become the world's second economy (measured in PPPs¹). However, major spatial imbalances have also been generated, with economic and productive development thriving in the coastal areas, which are better connected and have major points of contact with the international markets, such as Shanghai or Macao, to the detriment of the inland prefectures, which are poorly connected. In addition, the authorities have failed to implement the planning measures needed to mitigate the regional, economic, social, industrial and demographic imbalances that were taking place. Indeed, China

1 Purchasing power parity.

has been the main recipient of FDI worldwide since 1990, receiving between a quarter and a third of total global FDI going to developing countries. The spatial direction of this investment practically matches the territorial direction of domestic investment, as seen in (Figure 8), which analyses the correlation existing between the location of FDI and domestic investment. The correlation between both is very high, nearly 1 ($R^2 = 0.9964$), as a result of the application of the territorial and productive development programmes set out in the five-year plans to both domestic and international investment.

II. IMBALANCES IN INCOME DISTRIBUTION

The differences in income levels are also significant and are related to the level of investment received and the degree of industrialization and of territorial economic development. The unequal spatial distribution of the business and industrial fabric has given rise to a gradual divergence between urban and rural income. The average annual increase in urban per capita income, calculated for the 1990-2010 period, was 13.26%, while rural income only grew by 10.27% over the same period. In 1990, urban per capita income was around 34% higher than rural income; in 2000 urban income doubled rural income. In 2010, the remuneration of the urban population was 61% higher than that for the rural population.

The divergence between both was very high between 1990 and 2000. Between 2000 and 2010 the difference continued to increase, although at a slower pace than in the previous decade; however, the divergent trend will continue at least in the short term (Figure 9), which, despite the existing administrative restrictions, will encourage internal migration processes towards the industrial and economically dynamic coastal prefectures and urban areas.

Wage differences between rural and urban areas

Per capita wage differences between rural and urban areas in China are significant. A comparison of the rural and urban per capita income distribution maps (Figure 10) clearly shows the wage differences between rural and urban areas; the differences are so significant that the highest rural wage is comparable to the lowest urban wage.

Spatially, the highest wages are found in the urban areas on the western coastal strip, between the prefectures of Shandong and Guangdong, which have reached the highest degree of industrialization and urbanization. In this area, per capita wages fluctuate between 19,000 and 25,000 yen, although this figure is exceeded in the cities of Beijing and Shanghai, which have undergone significant economic and population growth over the last twenty years. Throughout the country, urban wages exceed 10,000 yen, but the central prefectures of Heilongjiang, Gansu and Qinghai register the lowest per capita income. Worth noting is the high urban wage income in the Autonomous Region of Tibet, which is similar to the average urban income along the industrial coastal strip and is the result of the high wages paid to the public workers posted to this region that aspires to independence.

Farm income is very low throughout the country. The highest rural per capita income is earned in the suburban farming areas along the eastern coastal strip; «suburban farming areas are highly complex, since they combine urban uses with open spaces and farming activities

(RMG del Valle, 2010)». The production of Chinese suburban farming areas is intended for meeting the demand for food of the cities in their hinterland. High demand contributes to an increase in agricultural prices and also in farmer wages. The highest rural income is found in the suburban area of Beijing and of the main Chinese cities: Shanghai, Macao and Hong Kong. Inland, moving away from the most industrialized area, the demand for agricultural products decreases due to the lower population density and farming wages.

CONCLUSIONS

It is likely that international investment flows towards China will not increase in the short term for a number of reasons, such as increasing Chinese wages in the industrial areas and the increase in transport costs worldwide, which makes products manufactured in China less competitive on the international markets (Bustelo, 2008). If international demand and investment contract, China will have to increase domestic consumption, something difficult due to the low purchasing power of the population, except for residents in industrial areas and large metropolitan centers, and to the inadequate social protection afforded to Chinese citizens.

If international demand and investment contract, domestic consumption will need to be increased to maintain the current production levels, something difficult due to the low purchasing power of the population and the inadequate social protection afforded to Chinese citizens, which encourages saving but contracts consumption. Thanks to its huge monetary reserves, China is not in great need of foreign investment to maintain high levels of industrial and productive investment, but the country does need the technology transfer associated with foreign investment in technologically state-of-the-art sectors to maintain industrial production and international demand for Chinese manufactured products.