

# Ten Years after “Go West”

Yuqing Wu

*Elliott School of International Affairs, The George Washington University*

## I West Development

After thirty years’ reform, China has experienced unprecedented changes and prosperity. As is known to all, China’s Reform and Opening-up Policy was initiated along the coastal region. By the end of the 1990s, the gap between the east and the west has been expanded increasingly. The eastern region had been far ahead of the west, which embedded instability for the whole society. Facing this situation, at the 4th Session of the 15th Communist Party of China Meeting in September 1999, West Development, or Xibu Da Kaifa named in Chinese, was forwarded for the first time.

In the next year, more detailed policies of this strategy were displayed. There were three pillars constituted by these policies. First of all was the infrastructure construction, which mainly depended on official investments to build up some new programs for railways, airports, irrigation systems, natural gas pipes, etc. The second one was to advance environmental protection and improvement by the policies of “return farmland to forest” and “return farmland to grass”. The last but not least was to adjust industries: West Development had to take advantage of foreign and domestic investments through further opening up. But it had to avoid copying the way of the eastern region, creating a new approach, because the environment in the western region is much more vulnerable than the east.

West Development has been raised and implemented for ten years. It is time to examine if this strategy of attracting foreign and domestic investments through fiscal inputs works. In order to answer this question, let’s take a deep look at the domestic investments first.

## II Domestic Investments to the West

Although West Development was put forward at the end of the 1990s, this strategy could date back to Deng Xiaoping’s statements on “Two General Situations” (两个大局 Liangge Daju). Deng’s theory stated that the coastal region could develop in advance, accelerating the openness; when it develops to some degree, the coastal region is responsible for helping to boost the hinterland’s development.<sup>1</sup>

Actually, Deng’s idea was in accord with the Gradient Development Theory, which believes that the advanced area will come to a limit after a period of fast development, as its cost for producing will ascend due to economic laws. At this time, some of the capital and technology

---

**Yuqing Wu** is a program assistant at the Eurasia Foundation. She is currently pursuing a Masters degree at the Elliott School of International Affairs, the George Washington University, with concentration in Economic Affairs and International Development. Previously, she interned as an administrative assistant in the Civil Ministry of Haizhu District Government in Guangzhou city PRC

<sup>1</sup> Jia Zhen, Xiaokang. Modernization. West Development—Deng’s Great Idea on Liangge Daju, *Journal of Xuehai*, 2000, Issue 4

will be shifted to the less developed area. In this way, economic development will spread, constituting a development zone.<sup>2</sup> In retrospect, the early development in Guangdong Province was boosted by taking over the industry which had lost comparative advantage in Hong Kong and Taiwan, just as the theory implies. At that time, Chinese government did not have as much money as today, so it could do nothing but loosen the policies, letting markets function to reallocate resources in these early developing areas.

It's natural to ask a question: why did the western region fail to catch up with the east in the same way that the east took over the laggard industries from Hong Kong and Taiwan? Contrarily, the gap between these two regions has been widened during the whole period, especially in the 1990s.

One of the answers lies in the “Coordination Failure” in development economics. Development is launched by the coordination or coexistence of a variety of actions taken by different parties, such as creation of a market big enough together, a set of supply chains and basic infrastructures. Without the credible offer of these elements, development fails to appear in some places.<sup>3</sup> In the western region, investors, governments, and residents there cannot coordinate their actions, especially in offering institutions, such as advanced ideas and culture, transparent and efficient bureaucracy, which play an important role in economic transformation. Facing these handicaps, companies hesitate to invest there, which will lead to a vicious cycle of an adverse institutional environment.

In addition, the success of the transfer of industries which have lost their comparative advantage in the eastern region is largely determined by whether the industry structure can be successfully adjusted in the eastern region itself. For a long time, the eastern region has become unsatisfied with the domination of labor-intensive and low-technology industries there. Companies have been struggling to climb to the upper level of the value chain. But the higher they climb, the more difficult it is for them to modify their growth path, as spillover from multinational companies has become increasingly difficult, while self-dependent technology cannot be achieved in a short time.<sup>4</sup> If the laggard industries move to the west, what will fill the gap left to these areas will be a big problem. This is why they have been stuck where they were.

The large amount of labor migrating from the west to the east worsens the situation of the west. According to the Gradient Development Theory, when the eastern region develops to a certain level, the labor will become scarce and more costly.<sup>5</sup> Right now, there is a large amount of migrant workers from rural areas, especially the central and western regions, which promises a stable supply of cheap labor to the east. Resulted from this, the industry transfer from the east to the west seems to be unnecessary.

Now that the market itself failed to solve the problem of unbalanced development in China, an alternative of state intervention should be carried out. This is also why the Chinese government launched West Development at the end of the 20<sup>th</sup> century. But has this strategy worked? Let's begin with some data.

---

<sup>2</sup>Huang Yuehui, A Few Problems to Be Solved for the Cooperation of the TVEs in the East and West, Rural Economy, 2002, Issue 3

<sup>3</sup>Michael P. Todaro, Stephen C. Smith, Economic Development, Addison-Wesley, 2003, P150-157

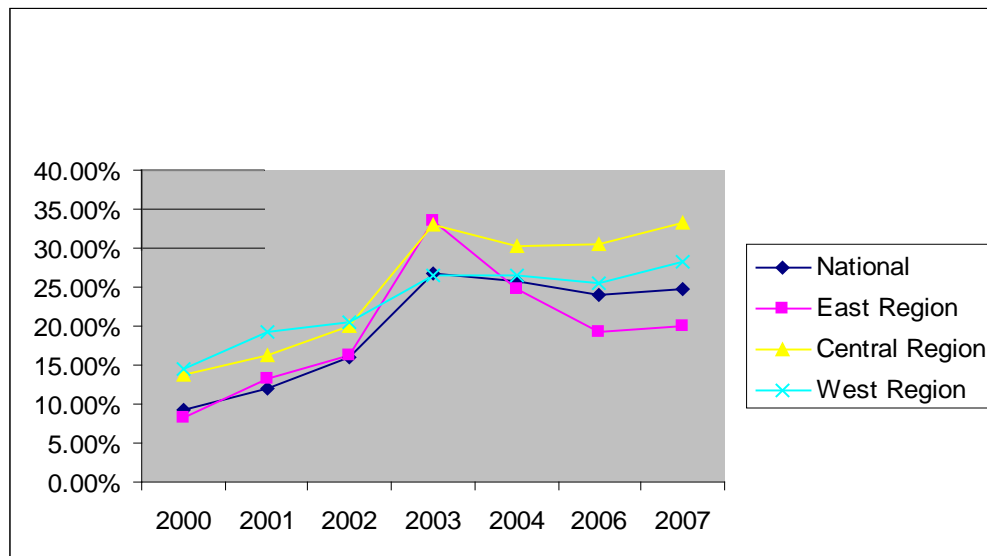
<sup>4</sup> Issue in Focus: China's Drive for Indigenous Innovation, Freeman Briefing, Feb 19<sup>th</sup>, 2008

<sup>5</sup> Huang Yuehui, A Few Problems to Be Solved for the Cooperation of the TVEs in the East and West, Rural Economy, 2002, Issue 3

## Ten Years after “Go West”

Because it's difficult to find the numbers directly displaying domestic investments to the western region, those on fixed assets investments are applied in this paper. Although the numbers here include foreign investments, they can show the general trends of domestic investments, because of a phenomenon which will be discussed below. From Chart 1, it is unlikely that the large amount of fiscal investments successfully direct other sources of funds to the western region. In the first three years, the fixed assets investments in the west did increase faster than the national, eastern and central regions' numbers. But after 2003, the eastern and central regions suddenly shoot up, leaving the west behind. Although after 2003, the eastern region's numbers have gone down, even lower than the national level, the western region's numbers just kept at the same level of the whole nation. This stable but moderate growth rate does not show us the fast catch-up of the western region.

**Chart 1: Growth Rate of Fixed Assets Investment**



Sources: Economic and Social Development Statistic Reports of People's Republic of China 2000—2007<sup>6</sup>

Meanwhile, the central region is quite outstanding here, which is shown by the light lines in the chart. This is related to the change of central government's policy in this period. In March 2004, State Department pronounced a document called Some Advice on Further Advancing West Development. In this document State Department stressed continuing West Development, but the Rising of Central China and the Revitalization of Northeast China were also mentioned in this document.<sup>7</sup> In the next year, these two regional development strategies were included in the policy plan formally. This is a result of the competition among different regions in China for a long time.

<sup>6</sup> The Website of National Bureau of Statistics of China: [www.stats.gov.cn](http://www.stats.gov.cn) Because there are no statistics on fixed assets investment in the eastern, central and west regions respectively in the report of 2005, this chart does not take the data of 2005 into account.

<sup>7</sup> Some Advice on Further Advancing West Development, Gazette of the State Council of the People's Republic of China, 2004, Issue 14

Since 1978, one of the features of the reform is that central government’s power was gradually passed to local governments.<sup>8</sup> Local governments played a vital role in the early stage of the reform, and had more incentives to compete with each other, because the development of local economy has great impact on local revenues and the career prospects of local officials. As West Development was implemented mainly by governments, especially in the infrastructure and environmental protection investments, governments are the major players here. Many industrial investments were carried out with the cooperation among the eastern and western local governments. In this case, the cooperation might be impaired by the fierce competition among them. The eastern government also worried about the local employment when the companies transferred their business to the west while the high-tech industries had not been established yet. Meanwhile the western governments were also cautious that the eastern companies would seize their local market.

In this situation, it seems that the central government can play a more active role in coordination here. However, that it declared other regional development strategies just four years after West Development had been implemented showed that even the central government did not stick to its policies. Even if its decision is firm enough, there is still a problem of efficiency of central control, which was exhibited by the failure of the planned economy before the reform.

Furthermore, the problem of “coordination failure” in the market didn’t seem to be solved through the abundant fiscal investments. Most of these investments have been poured into physical infrastructure projects, neglecting the institutional environment which is even more important to attracting investments.<sup>9</sup> Actually, this is the major handicap for the western region’s development, while it is also the most difficult one to be modified, since this region is comparatively closed to the outside world. Specifically, if this problem has something to do with the local governments themselves, such as their efficiency, complicated procedures, rent seeking, etc, it will be even less likely that they will criticize and change themselves. So unfortunately, the failure of the market had not been solved by the state’s intervention here, this equates to government failure.

### III Investments from Abroad

Since foreign investments have played an active role for the economic prosperity in the coastal areas, it is worth taking a further look at their effects on West Development, or if West Development succeeded in increasing these investments.

When the western region is mentioned, it’s usually deemed as a homogeneous area, neglecting the fact that these provinces and autonomous areas are quite diverse.

So when we examine how the foreign investments are distributed to different industries in this region, it is difficult to make a universal answer. Usually people have a general impression that most of the fund should go to industries of natural resources, such as coal mining, oil exploiting because this region is rich in these resources. This impression is right and wrong. It is right that these industries do account for a large part of the economy. However, even in the

<sup>8</sup> Zhang Qing, Analysis of the Application of the Local Government Competition Theories in the West to China, Productivity Research, 2008, Issue 13

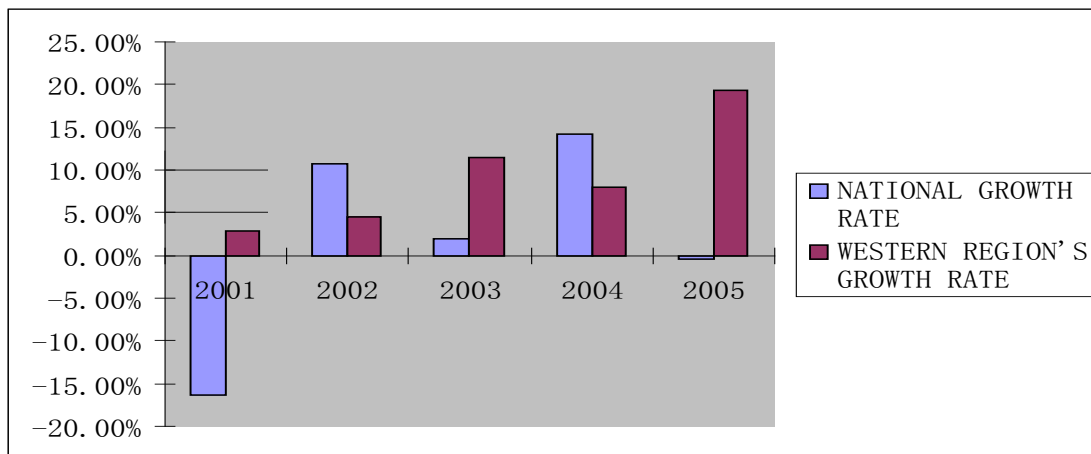
<sup>9</sup> Guan Xinshuai, The Soft Environment for Investments to the West and Local Governments’ Goal, Economic Tribune, 2008, Issue 11

## Ten Years after “Go West”

resource-abundant regions like Xinjiang, Inner Mongolia, Guizhou, manufacturing industry was still the focus of foreign investments.<sup>10</sup> One reason for this was that foreign investments were constrained in the natural resources industries in this region.<sup>11</sup> In some areas where urban economy dominates, such as Chongqing, Sichuan, Shaanxi, and Guangxi, real estate was also an important field for foreign investments.<sup>12</sup> But in 2007 as the real estate bubble became obvious in China, National Development and Reform Commission and Department of Commerce imposed new restrictions on foreign investments in real estate, by prolonging the approval procedure and handicapping foreign exchange settlement from abroad.<sup>13</sup>

Compared to attracting domestic investments, the central government emphasized the investments from abroad even more, and this was manifested by the preferential tax policies, which were the major methods of attracting foreign companies. In December 1999, the State Administration of Taxation released an announcement, which declared that in the nineteen western and middle provinces and autonomous regions. Within three years after the current preferential tax, foreign companies in the encouraged industries can pay income tax at a rate of 15%. When West Development was launched formally in 2000, the State Administration of Taxation further supported these companies by reducing the tariff on the advanced technology and equipment imported for the use of their own programs.<sup>14</sup>

**Chart 2: Growth Rate of Foreign Investment**



Source: Statistic Yearbooks of China and Eight Western Provinces 2002—2006<sup>15</sup>

<sup>10</sup> Statistic Yearbooks of Eight Western Provinces 2002—2006, China Statistics Press

<sup>11</sup> Catalogue for the Guidance of Foreign Investment Industries (Amended in 2004)

<sup>12</sup> Statistic Yearbooks of Eight Western Provinces 2002—2006, China Statistics Press

<sup>13</sup> Catalogue for the Guidance of Foreign Investment Industries: Limits on Investments to Real Estate Increase, Xinhua News Agency, Nov 8<sup>th</sup>, 2007, [http://www.cq.xinhuanet.com/2007-11/08/content\\_11617320.htm](http://www.cq.xinhuanet.com/2007-11/08/content_11617320.htm)

<sup>14</sup> Cao Xiao-chun, Li Zong-hui, On the Impact of Tax Policies on Foreign Direct Investment in China's Western Regions, *Journal of Jiangsu Polytechnic University*, Dec, 2007, Vol.8, No.4

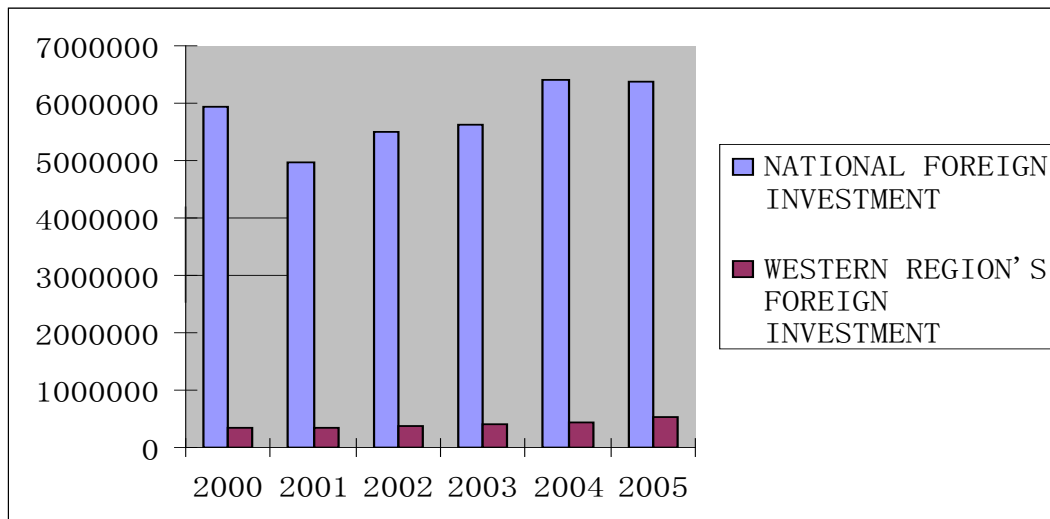
<sup>15</sup> Statistic Yearbooks of China and Eight Western Provinces 2002—2006, China Statistics Press. These eight provinces and autonomous regions include Sichuan, Gansu, Qinghai, Shaanxi, Yunnan, Guangxi, Inner Mongolia, and Chongqing.

One of the reasons why the central government attached much importance to foreign companies was its experience from the development mode of the eastern region. At the early stage, the eastern region, especially the Special Economic Zones, launched the economic boom by attracting foreign funds and technology through preferential tax. Thus copying the success of the eastern region has a great appeal to the government. But did it work again for the western region?

Looking at the statistics from 2000 to 2005, the actual foreign investments in the western region increased from 3,352.54 to 5,184.95 million dollars at an average growth rate of 9.26%, compared to 2.03%, the average growth rate of the whole country. Meanwhile, the proportion of the western region’s foreign investment to the whole country’s also experienced an increase from 5.6% to 8.1%. Comparing to 5.39% of the same ratio by 1999, the weight of foreign investments in the western region had been increased quite significantly.<sup>16</sup> From these two points, the western region really did a good job during this period, and the large amount of fiscal input was effective in attracting foreign investments. In addition, from chart 2, it’s quite surprising to find that the growth rate of foreign investments in the western region appears more stable than that of the whole country.

However, we can tell another story from chart 3. Because the national foreign investments which are mainly constituted by those in the eastern region, the growth of the western region is too small. Although the western region did experience a higher growth rate, its original number was so small that such a growth rate is still far from enough to catch up with the advanced eastern region. So there’s still a long way to go, no matter for the western region or the central government.

**Chart 3: National and Western region’s Foreign Investment (Yuan)**



Source: Statistic Yearbooks of China and Eight Western Provinces 2002—2006<sup>17</sup>

<sup>16</sup>Dai Tian-yu, Liu Ling-yun, Wang Li, An Economic Analysis on Capital Inflow in the Western Development, *Modern Economic Science*, Sep, 2002, Vol.24, No.5

<sup>17</sup> *Statistic Yearbooks of China and Eight Western Provinces 2002—2006*, China Statistics Press

## Ten Years after “Go West”

Among these investments, those from Hong Kong took the largest part, no matter in the whole country or the western region. Actually the structure of the foreign investments in the western region was generally the same as the whole country: Hong Kong comes first, then other Asian countries and offshore financial centers.<sup>18</sup> Hong Kong’s matured market operation, excellent commercial services and special location makes it a “hub” through which the money flows into the Mainland. Much of this money was from Taiwan, other Asian countries and western countries. The companies from these areas invested first to Hong Kong, then the money was transferred to the Mainland.

Strangely enough, among these investments, part of them came from the Mainland itself. In 1994, Hong Kong absorbed 265.1 billion Hong Kong dollars, out of which 62 billion was from Mainland, which was the second largest money source to Hong Kong.<sup>19</sup> The main reason for this strange phenomenon was the preferential tax policies for foreign investments discussed above. These policies have led to an unfair investment environment for domestic companies. Essentially, these companies think of a way to achieve the same tax rate by letting their money travel round from abroad. And Hong Kong was the ideal place for such an operation.

## IV Cases in the Western Region

As mentioned above, China’s vast western region is very diverse. It includes the areas where the natural environment is tough like Tibet, as well as where the geographical location and natural conditions are quite favorable, like Sichuan and Guangxi. If we just collect all the numbers into a basket called “the western region,” we may misunderstand the situation in the west. As a result, it is necessary to study some typical areas here.

### 1 Growth Potential—Chongqing

The first area coming to a more detailed study is Chongqing. As the only municipality city in the western region, Chongqing is outstanding in West Development. Actually, when it was established in 1997, one of the goals was to strengthen Chongqing’s leading role in the economic development of the south-west area. Its location at the end of the golden channel of Yangzi River and its industrial foundation gave people higher hope for it.

But in retrospect, Chongqing did not experience the development which it was supposed to experience. Ten years after the municipality city was established, the average growth rate of its gross production is just 10.21%, which ranks the eighth out of 12 western provinces.<sup>20</sup> Although there was a great increase in fixed assets investments in 1998, immediately after it was established the next year this number dropped from 31.3% to 6.6%, then gradually returned to the highest level by 2004.<sup>21</sup> Similarly, domestic investments to Chongqing experienced a stable growth by 2004.<sup>22</sup> This reflects the problems of Chongqing to attract industry transfer and investments.

---

<sup>18</sup> Ibid., China Statistics Press

<sup>19</sup> External Direct Investment of Hong Kong in 2004, Hong Kong Government Information Services, Dec 20th, 2005, [http://www.industryhk.org/sc\\_chi/news/news\\_ind/ind\\_051220\\_di.php](http://www.industryhk.org/sc_chi/news/news_ind/ind_051220_di.php)

<sup>20</sup> Li Guoqiang, Chongqing: Pole of the Growth of Western Region, *China Reform*, 2008, Issue 11

<sup>21</sup> Chongqing Yearly Statistic Communique, the website of National Bureau of Statistics of China, [http://www.stats.gov.cn/tjgb/ndtjgb/dfndtjgb/t20080328\\_402471430.htm](http://www.stats.gov.cn/tjgb/ndtjgb/dfndtjgb/t20080328_402471430.htm)

<sup>22</sup> The Major Problems for Chongqing to Take Over Industry Transfer and Its Countermeasure, the website of National Bureau of Statistics of China, [http://www.stats.gov.cn/tjfx/dfxx/t20080702\\_402489936.htm](http://www.stats.gov.cn/tjfx/dfxx/t20080702_402489936.htm)

In addition, Chongqing’s per capita disposable income also had a moderate improvement during this period.<sup>23</sup> The more important problem is the unparallel development of Chongqing’s rural area, which is more serious than the rest of China. The per capita disposable income in the urban area was more than three times that of the rural area in 2007.<sup>24</sup> The investments also reflected this problem. The one-hour economic circle aggregated 90% of the foreign investments and 80% of the domestic ones, while the two wings just took a little piece of the investments. This also impeded Chongqing’s ambition to become a test place for the harmonious development of urban and rural areas.

However, from 2004, the foreign investments climbed again, and reached 296.42 million in 2006. In 2007, the actual domestic investments suddenly shot to 43 billion dollars, which reflected Chongqing’s strategic adjustment. In Oct 2007, Chongqing signed a memorandum with Department of Commerce, in order to build a hinterland open economy in Chongqing with the help of the Department. Not long after this memorandum, the former minister of Department of Commerce Bo Xilai was assigned to be the leader of this young municipality city. Five months later, Bo led a visiting group to the Yangzi River Delta and Pearl River Delta, successfully attracting investments of more than 110 billion yuan. It is expected that Bo’s abundant experience in economic affairs and broad world view can lead to faster development in Chongqing.

## 2 Habitats of Minor Ethnic Groups

The western region is also the place where many Chinese minor ethnic groups gather. The economic polarization also means that the economic differences between these ethnic groups and the Han people are widening. Thus some special regions like Xinjiang deserve special attention.

Just as in other western areas, West Development did not bring an immediate economic boom in Xinjiang. Actually, Xinjiang has advanced with quite a slow pace, compared to other western areas. However, since Xinjiang has a comparatively well established industrial foundation, its gross production still ranks in the middle of the western region.<sup>25</sup>

For many years, the percentage of national investments in Xinjiang has never dropped below 68%. Of these investments, 58% focus on the second industry; 60% of them have gone to excavating, manufacturing, transporting and storage sectors.<sup>26</sup> Besides, as Xinjiang is one of the most resource-abundant regions in China, especially for oil and natural gas, much of this resource is directed to the east at a comparatively low price. However, just like many countries in the world, abundant resource may lead to a trap that people focus on resource-intensive industry, neglecting industrial reconstruction and sustainable development. This problem will impair Xinjiang’s long-term development.

<sup>23</sup>Chongqing Yearly Statistic Communique, the website of National Bureau of Statistics of China, [http://www.stats.gov.cn/tjgb/ndtjgb/dfndtjgb/t20080328\\_402471430.htm](http://www.stats.gov.cn/tjgb/ndtjgb/dfndtjgb/t20080328_402471430.htm)

<sup>24</sup>Chongqing Yearly Statistic Communique, the website of National Bureau of Statistics of China, [http://www.stats.gov.cn/tjgb/ndtjgb/dfndtjgb/t20080328\\_402471430.htm](http://www.stats.gov.cn/tjgb/ndtjgb/dfndtjgb/t20080328_402471430.htm)

<sup>25</sup> Comparison of the Major Economic Indicators of Twelve Western Provinces and Autonomous Regions in 2007, <http://www.nx.cei.gov.cn/jjsj/xtsj/200803/13121.html>

<sup>26</sup>Chen Xiao-kun, An Analysis of the unbalance between Xinjiang's Industrial Structure and Employment, Journal of Xinjiang University(Philosophy Social Science), July 2006, Vol.34, No.4



## Ten Years after “Go West”

In 2006, Xinjiang established a strategy of promoting the trade relations with Russia, Central Asia, South Asia and Middle East.<sup>27</sup> In recent years, although the growth base with some countries is not that high, China’s trade with these countries had a dramatic growth. The growth rates with some countries can reach over 60%.<sup>28</sup> Most of this trade is carried out through Xinjiang, and they had a positive impact on Xinjiang’s economy. It can be predicted that this will be one of the directions of Xinjiang’s development.

## V West Development under Current Global Crisis

Last of all, it’s necessary to examine how West Development will go under the current global crisis. Obviously, the south-east region, which is dominated by the export-led economy, has already been affected negatively by this wave of global crisis. Many companies have experienced a continual decline of orders from abroad. The situation is especially severe for the mid and small size companies, some of which are facing possibility of bankruptcy.<sup>29</sup>

Contrarily, according to recent statistics, in the early three quarters of 2008, the economy in the western cities kept on developing at a high speed.<sup>30</sup> According to a survey done by Xinhua News Agency in December 2008, the western region was generally not influenced seriously by far.<sup>31</sup> This may be because the economy of the western region targets more at the domestic market and is not exposed a lot to the foreign investments yet, which has just been discussed above. But there is another possibility that it will take some time for the answer to come out. There may be a passing process from the east to the west, if the western region depends on the domestic demand which is composed largely by the market in the east.

In certain industries, the negative effect has already been concentrated and evident. The sectors of raw materials and energy, such as coal mining, steel, power industry are vulnerable to the economic fluctuation, thus suffering instantly from this downturn. In addition, the sharp decline of the international prices in these industries may also squeeze the profit margin of the companies in the west. As these industries take a great part of the whole western economy, it’s reasonable to believe that the western economy will be affected by this trend.

More importantly, these large amounts of migrant workers have to go back to their hometowns because many factories in the east have to close down or cut back their labor demand. In early February, an official responsible for rural policy revealed that around 20 million migrant workers had lost their jobs in last few months. And this number was estimated to reach 25 million at the bottom.<sup>32</sup> The western region which constitutes one of the major sources of these migrant workers is facing great trouble when these workers come back waiting for jobs. The first reaction of the government was quite Chinese characteristic: in February, the State Council

---

<sup>27</sup> Wu Jun, Zhang Xia, the Evolvement of Xinjiang’s Economic Development Strategy, Xinjiang Today, 2008, Issue 15

<sup>28</sup>Zhang Jian-lun, Han Jiabin, Economic Cooperation of the Economic Circle around Xinjiang, 2008, Issue 8

<sup>29</sup>Financial Crisis Spread to Real Economy and the Middle and Western Regions, Xinhua News Agency, Dec 10, 2008, [http://www.gd.xinhuanet.com/newscenter/zxbd/2008-12/10/content\\_15144457.htm](http://www.gd.xinhuanet.com/newscenter/zxbd/2008-12/10/content_15144457.htm)

<sup>30</sup>Why the Statistics of the Middle and Western Regions Are Better than Those of Eastern Region, Xinhua News Agency, Dec 12, 2008, [http://news.xinhuanet.com/fortune/2008-12/12/content\\_10495527.htm](http://news.xinhuanet.com/fortune/2008-12/12/content_10495527.htm)

<sup>31</sup>Financial Crisis’ Impact on China, West China City News, Dec 15, 2008, <http://finance.sina.com.cn/roll/20081215/09002572980.shtml>

<sup>32</sup> China’s Migrants See Jobless Ranks Soar, Wall Street Journal, Feb 3, 2009, <http://online.wsj.com/article/SB123359977495740199.html>

announced that, any company intending to lay off more than 20 workers has to report to the local civil service on human resource and social security. Besides, the government has also promised to reinforce subsidies and training programs for the migrant workers. These measures may help alleviating the situation in the west, but the ultimate effect lies in three aspects.

The first one is how much of the stimulating package will go to the western region. The stimulus package was proclaimed in November of 2008, but the detailed plan was not displayed until the National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC) in March of 2009. However, what has been published is just the distribution of the package to different fields. About 1.5 trillion yuan will go to infrastructure, which takes 37.5% of the whole stimulating package. Of course, many of these projects, such as railroad, highways, pipelines, involve many provinces in the west. But as this stimulating package was released quite suddenly, the western region was not prepared for it, although the officials submitted all the projects available. More problematic is that the effect of these infrastructure projects is uncertain. During last ten years, a large amount of money has been poured into infrastructure, yet it did not seem to help a lot.<sup>33</sup>

Another one is how the industry transfer from the east to the west—which was accelerated in 2008—will develop in the crisis. If the eastern provinces just retain these laggard industries as a response to the downturn, it may do harm to both the west and the east. If the eastern provinces take the chance that large amount of migrant workers go back to the west, passing these industries to the west and reconstructing their industrial structure, China will come out of the crisis with more strength. But this largely depends on if the west is ready for this transfer, as well as the coordination of the local governments.

There's another choice that these migrant workers can establish their own business after they return to their hometowns, with the skills and experience learnt in the east. But one of the handicaps is the financial support for these small enterprises. Although the central government and local governments have declared some measures of microfinance, the limited amount, complicated procedure and lack of collateral estimation may impede the effect of these measures. Recently, the central government has legalized the individual loan, which may help alleviating the financial shortage of these vulnerable small enterprises.<sup>34</sup>

Recently, according to a speech given by Du Ying, the Vice Director of National Development and Reform Commission, the government is studying a new plan for West Development for the next ten years. And new policies are expected to come out later.<sup>35</sup>

However, the institution environment is the key handicap for the development of the western region, and this environment will not be altered in a short time, so we can anticipate that the western region will not catch up with the eastern region shortly. If the new policy focuses on the industrial transfer, it doesn't seem that the gap between the west and the east will shrink, If it will not enlarge, because the east has to upgrade its industry before it passes the old one to the

---

<sup>33</sup>4,000 Billion stimulates Domestic Demand, Western Region Expects, *Time Weekly*, March 1<sup>st</sup>, 2009, <http://news.sina.com.cn/c/2009-03-01/122217312121.shtml>

<sup>34</sup>Guan Yu Xiao E Dai Kuan Gong Si De Zhi Dao Yi Jian, *China Banking Regulatory Commission and the People's Bank of China*, <http://www.cbrc.gov.cn/chinese/home/jsp/docView.jsp?docID=2008050844C6FDE83536CF44FFF6E85E5BC32C00>

<sup>35</sup>New Policies for West Development are expected, *China Business Times*, April 7<sup>th</sup>, 2009, <http://finance.ifeng.com/roll/20090407/517109.shtml>

### **Ten Years after “Go West”**

west. Thus what can be forecasted is that West Development will not be accomplished in a short term. If the new policy fails to improve the institution of the west, West Development doesn't seem to succeed even in the long run. Let's see what new policy will come out in the next step.